Nova Scotia Budget

For the fiscal year

2005 2006

The Honourable Peter G. Christie
Minister of Finance

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Nova Scotia Budget

NOVA SCOTIA

For the fiscal year

2005
2006

NOVA SCOTIA

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Introduction

Mr. Speaker, Premier, colleagues.

Today is a big day for me and for all of us in this Chamber.

But for most Nova Scotians it's just like any other day.

They got up this morning, got dressed for work.

Perhaps they got the kids off to school before heading out to check on an aging parent.

Perhaps they went for their first job interview or celebrated their last day on the job before retiring.

Many, I'm sure, are not even aware that today is budget day.

But it's a day, Mr. Speaker, that will affect practically every Nova Scotian—either immediately and directly, or over time—in important ways they may not even notice.

I say this, Mr. Speaker, because the decisions we take and the choices we make here and now have far-reaching implications for our province and the people we serve, not just today, but well into the future.

And I say this, Mr. Speaker, because I want Nova Scotians to know that, just as we have with each and every budget we have brought before this House, we once again thought long and hard—not just about what is the right budget for today, but about the best budget to build a better Nova Scotia tomorrow.

The right budget for today, the best budget for tomorrow

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Mr. Speaker, I am proud to present my second budget as Minister of Finance and Nova Scotia's fourth consecutive balanced budget:

Healthy kids

- A budget that includes significant new dollars to help our kids do better in school and to grow into healthy, productive adults.

- A budget that continues to build on our economic strengths, to address our social challenges, and to help struggling families better cope with the demands and costs of raising a family.

- A budget that remains true to our commitment to live within our means, while doing everything within our means to address the priorities of Nova Scotians.

$61 million toward debt reduction

- A budget, Mr. Speaker, that contains no new taxes and will end the year with a $63.3 million surplus, $61 million of which will go toward debt reduction.

A Look Back to 2004–2005

Mr. Speaker, Nova Scotia is forecasted to end fiscal 2004–2005 with a $87.5 million surplus, every penny of which will be applied to our debt.

Let me take a moment to point out that Nova Scotia is one of only two provinces in the country in recent years to have tabled four balanced budgets in a row.

As things go, 2004–2005 was a good year . . . a better year than most. Our economy did better than many of our private forecasters expected, generating 10,300 new jobs (95 per cent full time).

In fact, last year, Nova Scotia recorded the highest job growth in the country.

Highest job growth in the country

In addition, Mr. Speaker, finally, after pushing hard for a fairer health-care deal and a fairer equalization-sharing agreement, Ottawa came through with both.

In September we reached a new Health Accord and in October a new equalization deal.

Both of these new agreements, along with an economy that exceeded expectations, allowed us to make additional investments in the third quarter of 2004–2005:

- Investments that will have a positive impact on the programs and services we provide to Nova Scotians throughout 2005–2006 and well beyond.

- Investments we used to meet and/or exceed the commitments we outlined in our Blueprint for Building a Better Nova Scotia.

Meeting our commitments

- Investments we made knowing they would help address the priorities of Nova Scotians:

  - like $500,000 for a new wheelchair recycling program for children 18 years and younger, $400,000 to launch a new breakfast program for our elementary students, and $2.7 million more to repair the homes of our seniors and low income Nova Scotians

  - like $8.8 million to support struggling farm families and $10 million more to promote tourism

Investing in priorities

  - and $20.3 million in university funding including $12.3 million for the first installment on our multi-year funding agreement.

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Mr. Speaker, our strong economic performance throughout 2004–2005 and the additional dollars we received from Ottawa also enabled us to make a $60-million down payment on our debt, which in turn gives us greater capacity over the next two years to address the urgent need to fix more of our roads and to replace more of our aging bridges—something every member of this House has said, and every Nova Scotian knows, is crucial, not just to public safety, but to supporting a growing economy.

Economic Outlook for the Year Ahead

Steady economic growth

Mr. Speaker, our economic indicators, as well as those prepared by private sector forecasters, indicate Nova Scotia can expect steady growth over the coming year. Employment growth is expected to increase 1.5 per cent in 2005 and one per cent in 2006, with the unemployment rate dipping slightly in 2005 and remaining stable through 2006. It is also anticipated that there will be modest growth in personal income over the next two years and that the Consumer Price Index will increase by 1.9 per cent this year and 2.0 per cent next. As well, Nova Scotia is expected to witness a 4.2 per cent increase in personal expenditures on consumer goods and services and a 4.4 per cent growth in retail sales.

Mr. Speaker, real GDP is projected to increase by 2.1 per cent this year and 2.6 per cent in 2006.

Provincial Economic Outlook 2004 to 2006
Key Assumptions (as of March 2, 2005 - % change)

	2004	2005	2006
Nominal GDP	4.6	4.3	3.7
Real GDP	1.5	2.1	2.6
Employment	2.4*	1.5	1.0
Unemployment Rate	8.8*	8.5	8.6
Personal Income	2.6	3.5	3.3
Consumer Price Index	1.8*	1.9	2.0

Source: Statistics Canada, actual, *Nova Scotia Department of Finance Projections

Debt-to-GDP Ratio Down Again ... Credit Ratings UP

Mr. Speaker, this government was among one of the first governments in Canada to adopt generally accepted accounting principles (GAAP).

We were the first government in Nova Scotia to successfully eliminate the province's deficit and to table a debt- reduction plan.

And, Mr. Speaker, if it is the will of the opposition to allow this minority government to continue, we will be the first government in the history of Nova Scotia to watch our debt go down.

Debt reduction plan accelerated

Our Debt Reduction Plan is not just on target, it has been accelerated.

As our Premier has already said, every penny of every dollar from the $830-million up-front payment we expect to receive from Ottawa as a result of successfully negotiating a better offshore deal will go to the debt. This will free up significant new dollars that would otherwise go to servicing the debt, an estimated $20 million this year and approximately $50 million annually.

Mr. Speaker, as a minority government, and at a time when demands are great and the dollars to meet them still in short supply, it could be awfully tempting to bow to the demands to spend some or all of the $830 million in new offshore money.

But that is not the way of this government or our Premier.

We will continue to make the right decisions for our province today, but always with a view to building a better future.

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We will continue to do what we can, whenever we can, to ease the burden of debt that weighs heavily on our minds ... and heavily on our children's shoulders.

With that said, let me take a moment to address the significance of the debt, and why it is what it is.

Transparent accounting

Mr. Speaker, almost 80 per cent of the increase in the debt since 1999 is the direct result of adopting transparent accounting rules and the provision for closing Sysco, the sale of NSRL, and the addition of assets for P-3 leases. Before 1999, the debts of Sysco, Nova Scotia Resources Limited, and the regional health boards, for example, were not included in the provincial budget and not accounted for when recording our true debt.

Today they are, as they should be.

As well, in keeping with subsequent changes to generally accepted accounting principles and Public Sector Accounting Board policies, we consolidated and recorded $1.1 billion in pension and retirement allowances, including $75.2 million for school boards retiring allowances.

And obviously, Mr. Speaker, before you can tackle the debt, you need to eliminate deficit spending.

Which we did in 2002, on time, and as promised.

We also borrowed over our time in government so we could begin addressing Nova Scotia's significant infrastructure deficit.

Money we used to pay for the capital costs of road improvements, better hospitals, and new schools that, thankfully, we once again own and control.

Investing in roads, hospitals and schools

Change in Provincial Net Direct Debt
March, 1999 to March, 2005
(numbers in $ millions)

Net Direct Debt - March 31, 2005 (f)	12,381.2
Net Direct Debt - March 31, 1999	9,928.1
Increase	**2,453.1**
Accounting Changes	1,141.2
Sysco and NSRL	240.6
P3 Leases	484.8
Other	586.5
Total	**2,453.1**

And, we did just as any responsible business man or woman who is expanding their business would do, just as any responsible home owner who is making needed repairs to their home would do, we set aside money from our revenues to cover the cost of the dollars we borrowed.

Mr. Speaker, we could have chosen to neglect our roads, hospitals, and schools. We didn't.

We could have chosen to cut deeply into program spending and lay off hundreds if not thousands of highway workers, nurses, or teachers to pay for urgently needed capital improvements.

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We didn't.

We rejected that approach because it would have been bad economics based on faulty assumptions that would have led to chaos throughout the public service and concern among investors.

Instead, we did what was reasonable and right. We did what was totally consistent with GAAP and totally consistent with the most modern and transparent rules of accounting—we borrowed the capital dollars needed to support the needs of the travelling public, of patients, of students, and of a growing economy and amortized the annual costs of our capital investments.

This year, total capital spending on highways, schools, health care facilities and other important infrastucture investments total $280 million.

Sound fiscal management ... stronger economy

Yes, the debt has grown, but so has our economy.

In fact, in many ways, the dollars we borrowed for capital improvements to our roads, hospitals, and schools helped put unemployed Nova Scotians back to work, which in turn provided an extra boost to our economy.

Mr. Speaker, make no mistake, Nova Scotia's capacity to manage its debt has significantly improved in recent years.

Capital Spending
(In $Millions)

Education	
New Schools	$38.1
Additions & Alterations	$17.6
Community Colleges	$30.1
Buses	$4.7
Justice	
Courthouses/Correctional Facilities	$2.5
Transportation	
Buildings	$14.0
Highways	$142.2
Other	
Ambulances	$5.3
Information Technology Projects	$20.6
Other	$4.9
Total	**$280.0**

(numbers are rounded)

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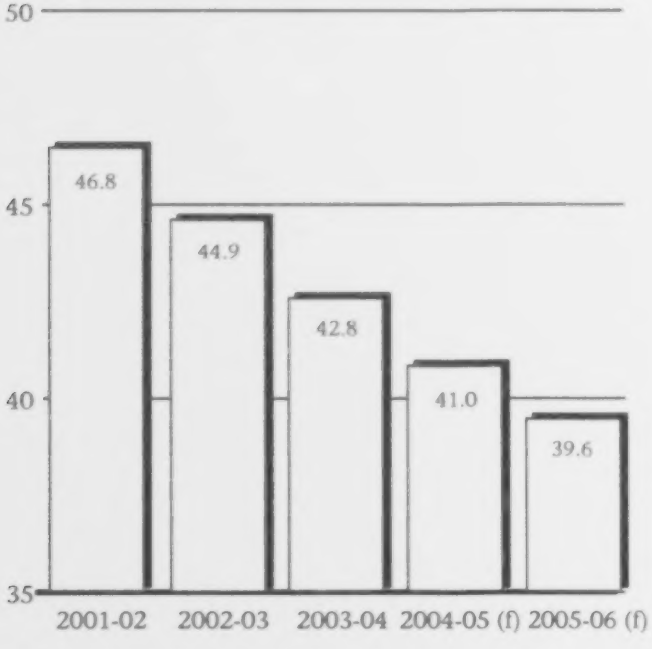
Nova Scotia's net direct debt to GDP ratio is projected to go down once again—for the fourth year in a row—from 46.8 per cent in 2001–02 to a forecast of 39.6 per cent this year.

And so is our foreign currency exposure. In 1999 it was 51 per cent; today it is 16.2 per cent.

Net Direct Debt to Gross Domestic Product Ratio
2001–02 to 2005–06
(per cent)



Source: NDD public accounts,
*forecast from 2005-2006 Budget Address schedule
GDP Statistics Canada catalogue no. 13-213-PPB for actuals,
forecast from Department of Finance Economic Policy

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These are two important indicators of the government's improved financial strength.

All three credit rating agencies show confidence

Mr. Speaker, it was sound and prudent management of the province's finances that prompted all three of the province's credit-rating agencies to improve Nova Scotia's credit rating during this government's time in office.

In fact, it was the first time ever the Dominion Bond Rating Agency positively adjusted Nova Scotia's credit rating.

So, for those who disagree with borrowing the capital dollars needed to fix our roads, replace our aging schools, or modernize our hospitals, the question becomes: How would you pay for infrastructure improvements without throwing us back into deficit, without huge layoffs, wage freezes, or rollbacks, without significantly increasing taxes . . . without damaging the economy?

This government provided an orderly transition from years of over-spending and huge deficits to a new period of fiscal stability, while at the same time improving services to Nova Scotians.

Mr. Speaker, Nova Scotia's fiscal health has significantly improved since 1999 and continues to steadily improve to this day.

Greater flexibility to address priorities . . . continued fiscal discipline required

And even though this gives us a bit more flexibility to address the needs of Nova Scotian families, we must continue to keep our shoulder to the wheel, our eye on the ball, when it comes to managing the province's finances.

We must continue to make investments that count and that contribute to Nova Scotia's long-term economic success and social progress.

That is why this budget includes significant new investments in education and to support healthy living.

Growing Up Great—Investing in Education and Healthier Kids

Mr. Speaker, in his most recent State of the Province Address, the Premier said, "We are going to apply the same kind of discipline and determination to improving the health and academic success of young Nova Scotians, as we did to improving the fiscal and economic health of our province."

P–12 funding way up

Mr. Speaker, I am pleased to announce that the budget to help our primary to grade 12 students do better in school is increasing by $53.7 million, bringing the total amount to $928.6 million, a 6.1 per cent increase over 2004–2005.

Of course, I think we all know that it's not just how much you spend, but where you spend it, and how you spend it, that counts.

That is why, in February, we brought hundreds of parents, teachers, school board members, administrators, and others together for the largest education forum ever held in our province.

Collaborative approach

We discussed with them the next steps for building on the success of our *Learning For Life* plan and shared with them our vision of an education system that is more responsive to student needs, more accountable to parents, and more supportive of a healthy, more productive learning environment.

The budget I am tabling today reflects, to a great extent, what they told us.

And they told us our plan was solid and our vision on the mark.

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Mr. Speaker, this year's budget includes $5.6 million more to hire more specialists—more speech language pathologists, school psychologists, and teachers, including more resource teachers to help students struggling with reading and math, and more physical education teachers to help get our kids in better shape, and stay in shape.

Smaller class sizes

It includes $6.3 million more to extend our multi-year plan to reduce class sizes in the early years. As promised, this fall the 25 student per classroom maximum will be extended beyond grade primary and grade 1 to include all grade 2 students.

As well, in all grade primary and grade 1 classes where there is a special needs student following an Individualized Program Plan, either the class size will be capped at 20, or there will be the additional supervision of another adult.

Mr. Speaker, once again, these measures demonstrate this government's commitment to give more of our youngest learners more one-on-one time with their teachers.

More books and teaching resources

The budget also includes an additional $1 million for more books and teaching resources. And, Mr. Speaker, this is on top of the $500,000 we announced in December.

It also includes new dollars to address an issue of serious concern to parents, teachers, and Nova Scotia's business community.

Mr. Speaker, we are investing $1.9 million to help more young Nova Scotians at risk of dropping out of school and at risk of losing out on a good future here at home. We will do more to help them find new opportunities to apply their talent and their skills in ways that will have lasting and positive benefits for them and for our economy.

Help for at risk students

Beginning this fall, and starting in grade 10, *Options and Opportunities* will provide at-risk high school students with hands-on trades training that matches potential high school dropouts with qualified employers who will provide structured, co-operative learning experiences in partnership with the Department of Education and local school boards.

Mr. Speaker, students who enter this program and meet or exceed expected outcomes will be guaranteed the opportunity to continue their learning experience and their journey toward personal success. We will make sure there is a seat open and available to them at a Nova Scotia Community College campus where they can continue their studies.

Addressing Nova Scotia's skills shortage

Mr. Speaker, this is just one example of the good work and forward thinking of businessmen and women within our province who are determined to see Nova Scotia's economy grow. It is just one example of this government's commitment to work in partnership with them, our school boards, and our community college, to address our skills shortage and to take advantage of the numerous opportunities that are available to young Nova Scotians across our province.

In addition, the Department of Education will introduce new youth apprenticeship programs to build important workplace skills and to help young Nova Scotians make better, more informed career choices.

Mr. Speaker, in the interest of time, I will not be able to cover all that we are doing to advance the academic success of our students.

But let me cover a few more highlights.

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New preschool program

As promised, we will soon pilot up to 20 free and full-day, activity-based preschool programs for four-year-olds in areas that meet the following criteria: where there is known demand, where there is a lack of readily available day-care spaces, and where existing schools have room to accommodate additional students.

Our preschool program is designed to better prepare our youngest learners for their first big step onto the school bus and into the classroom.

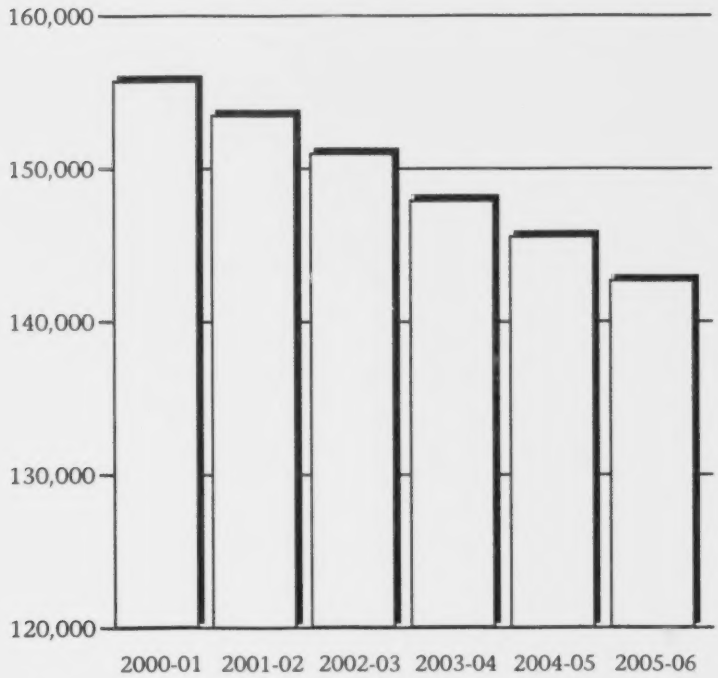
Mr. Speaker, many of the new dollars we are investing in education will be targeted to programs where we know the need is great and where we have established specific outcomes, such as improving the ratio of specialists to special needs students.

The balance of the increase in program spending will go directly to school boards to cover wage and other operating costs pressures, as well as, for example, to increase funding for healthy living and to enhance literacy support programs.

School Board funding is up

And, as announced last month, no school board, despite steep declines in student enrolment, will receive less money this year, based on the findings of the recent School Funding Review Process. In fact, every board will receive more in 2005–2006. We will, however, in the interests of fairness and in the interests of ensuring equity throughout the public school system, increase by a larger margin, the funding to boards with unique pressures, such as the Halifax, South Shore and Tri-County School Boards.

Declining Student Enrollment
2000–2001 to 2005–2006



(Source: Provincial Funding Profile Sheets, Department of Education)

Mr. Speaker, our schools have a big influence on healthy attitudes and a big role to play in shaping healthy decisions.

Promoting healthy habits

That is why the Department of Education, and the Office of Health Promotion, will be spending an additional $3.5 million on school-based initiatives to help our kids get in shape and stay in shape. Included in this amount is $750,000 more to introduce a province-wide healthy breakfast program for our elementary schools and $345,000 more to expand the hugely successful healthy eating strategy that was piloted in our Valley schools—a pilot, that clearly demonstrated the health dividends for our children when our schools promote healthy eating and provide healthy food choices.

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I have covered only a few of the highlights of our plan to revitalize and re-energize Nova Scotia's public education system. The full plan, which will provide a lot more detail to students, teachers, and parents, will be released in the coming weeks.

Increased Education Funding

(Numbers in Millions $)	Estimate 2004-05	Estimate 2005-06	$ increase	% increase
Public Schools Education Funding	874.9	928.6	53.7	6.1%
Higher Education	19.9	25.6	5.7	28.7%
Skills and Learning	11.9	12.8	0.9	7.5%
Adiministration and Other Program Areas	22.1	25.6	3.5	15.8%
Nova Scotia Community College Grants	74.0	81.8	7.8	10.6%
	$1,002.8	$1,074.4	$71.6	7.1%

And, Mr. Speaker, beyond the $53.7 million in new operating dollars we are providing to improve the academic performance of our students, we are also providing $55.7 million in capital funding to either replace or make additions and alterations to our P–12 schools.

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More Money for Post-Secondary Students

Mr. Speaker, two years ago, we announced a 10-year, $123-million capital expansion plan for the Nova Scotia Community College.

That plan will see a new state-of-the-art facility built in the Halifax Regional Municipality and major upgrades at virtually every other campus across the province, providing an additional 2,500 young Nova Scotians with the opportunity to pursue a quality education and a good future here at home.

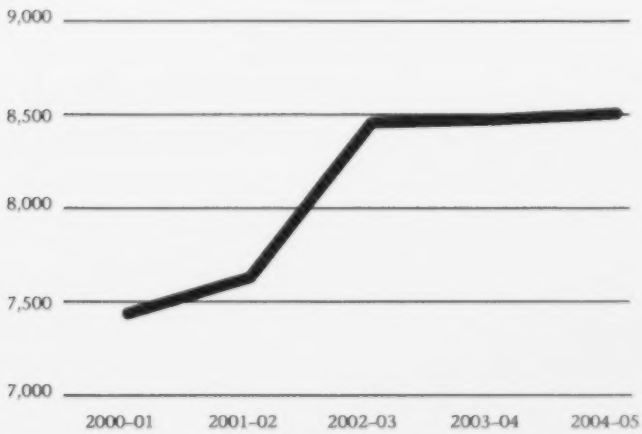
More opportunities for young Nova Scotians

This year, we are investing an additional $30.1 million, for a three-year total of $68.9 million in capital improvements. We are also increasing the operating grant to the Nova Scotia Community College by an additional $7.8 million, bringing it to $81.8 million for 2005–2006.

This investment, Mr. Speaker, underscores this government's commitment to help more Nova Scotians get the skills and trades training they need to succeed.

Increased Enrollment at Nova Scotia Community College 2000–2001 to 2004–2005

(total enrollments)



(source: NSCC Preliminary Enrollment Count at September 30 annually)

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It also underscores this government's commitment to make sound investments today that will support a stronger economy tomorrow.

University funding up

Mr. Speaker, as mentioned earlier, late last year, we signed a multi-year funding agreement with our universities—an agreement that will see annual grants to universities increase by approximately $34.7 million at the end of three years. As part of this agreement, our universities have agreed to hold annual tuition increases to no more than 3.9 per cent. This, Mr. Speaker, is significantly better than the average increase of 6 or 7 per cent in recent years, and a far cry from the mid 1990s when government cuts to university grants forced tuitions to rise sharply.

And let me take a moment to set the record straight. It has been suggested—wrongly suggested—that Nova Scotia is at the bottom of the pack when it comes to funding our post-secondary students. This is simply not true. In fact, on a per-capita basis, Nova Scotia's funding for post-secondary education is higher than most provinces.

It has also been suggested that we should simply impose a tuition freeze on our universities. Something that has been tried elsewhere with significant financial consequences for those students who were in the midst of their university education or just about to enter. For example, British Columbia imposed a tuition freeze that lasted six years. When it was lifted, as was inevitable, and the quality of eductaion began to rapidly decline, students found themselves grappling with huge tuition increases and hefty new fees. In fact, within three years tuition rose by as much as 80 per cent at British Columbia universities and by more than 100% at B.C. Colleges.

Mr. Speaker, our universities, like virtually every other business or public institution, are not immune to rising cost pressures, such as the cost of increased wages or other operating expenses.

And while it might seem like imposing a tuition freeze on our universities is the politically convenient thing to do, it would be the wrong thing to do when it comes to protecting the quality and accessibility of a university education for tomorrow's students.

More assistance for students

Having said that, as a government we have done, and we will continue to do, what we can to help young Nova Scotians better manage the cost of their investment in a quality education. Our student debt-assistance program, introduced two years ago, now enables graduates who make an earnest effort to repay their loans and who work in Nova Scotia to qualify for up to 40 per cent loan forgiveness on the provincial portion. This year, we are increasing the budget for loan forgiveness by an additional $1 million as more students take advantage of this program.

As well, in partnership with the federal government, we are making changes to the Nova Scotia Student Loan Program to enable more students to qualify for a student loan and for the loan forgiveness programs I just referenced.

All told, the government has increased support for Nova Scotia's post-secondary students by $13.4 million, for a total of $309.5 million in 2005–2006.

Investing in brighter futures

Mr. Speaker, the increased investments in our public school system, in skills and learning, and in our post-secondary education system for 2005–2006 amount to $71.7 million, bringing the total budget for education to $1.28 billion, a substantial increase that will help our students do better in school and lead them to a better future here in Nova Scotia.

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Better Health Care, Better Health Decisions

Mr. Speaker, Nova Scotia has one of the country's oldest populations, along with some of its highest chronic disease rates, both of which put huge pressures on our budget.

In order to keep up with demand and enhance our efforts to improve access to quality care, we are increasing the operating budget for the Department of Health to $2.56 billion, an increase of $218 million, or 9.3 per cent, over 2004–2005.

And for the record, and as promised, every cent of every additional dollar received as a result of our new Health Accord with Ottawa and more will be spent on health care.

Hospital funding increased

In December of last year, we accelerated our efforts to speed access to care by increasing funding to our district health authorities and the IWK by $18 million. This funding will now be carried forward in their base budgets. All told, funding to our DHAs now stands at $1.21 billion, a $102.3 million or 9.2 per cent increase over last year.

Increased Funding for Health Care

(In $Millions)	Estimate 2004–05	Estimate 2005–06	$ Increase	%Increase
DHA's and IWK	$1,108.4	$1,210.7	$102.3	9.2%
Medical Payments	$511.3	$525.3	$14.0	2.7%
Continuing Care and Home Care	$126.8	$128.5	$1.7	1.3%
Long Term Care	$246.6	$295.7	$49.1	19.9%
Pharmacare Program	$102.9	$119.9	$17.0	16.5%
EHS	$74.1	$75.6	$1.5	2.0%
Capital Grants	$38.0	$38.0	$0	0.0%
Administration and Other Program Areas	$133.6	$166.0	$32.4	24.3%
Total funding in Health	$2,341.7	$2,559.7	$218.0	9.3%

Reducing wait times

As well, Mr. Speaker, every dollar of the $15 million provided through the Federal Diagnostic and Medical Equipment Fund is being used to purchase new state-of-the art equipment. A fifth linear accelerator was recently purchased for the Capital District Health Authority, reducing wait times for radiation therapy. And the number of publicly funded MRIs will soon double with the addition of four new scanners and the replacement of two others. Once they are on stream, Nova Scotia will lead the country when it comes to accessibility to magnetic resonance imaging. As well, in order to ensure access to more precise diagnostic testing, three new mammography screening units will be purchased to replace aging equipment.

Other investments to reduce wait times include funding for the additional 21 beds and to expand the Emergency Room at Valley Regional, an additional $2.3 million to operate the 25-bed orthopedic expansion at the Queen Elizabeth II Health Sciences Centre, $800,000 for the addition of another operating room at the Cumberland Regional Hospital, an additional $850,000 to expand the orthopedic program in New Glasgow, and $1.65 million to open an additional 50 restorative beds across the province.

More for mental health

As well, in order to improve services to children and youth, enhance emergency and crisis services, and expand community supports for Nova Scotians suffering from chronic mental illness, we are increasing the mental health budget by $6.4 million. Two million of this will be dedicated to implementing Nova Scotia's new mental health standards.

Mr. Speaker, recognizing the hardship on Nova Scotians who must travel, often long distances, for dialysis, we are also investing $750,000 to identify opportunities for them to receive this vital service closer to home, including examining ways to expand satellite dialysis.

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We will also conduct a thorough review of existing pain-management services with a view to reducing wait times for patients suffering from chronic pain; and we will introduce a new palliative care program for the people of South West Nova.

Mr. Speaker, here a few of the other investments we are making to expand or enhance health-care services to Nova Scotians.

Helping low-income diabetics

In consultation with the Diabetes Association of Nova Scotia, we will launch a new Low-Income Diabetic Assistance Program. This program will help diabetics offset the cost of the supplies they need to better manage and control a disease that all too often and all too soon robs them of their quality of life. A total of $2.5 million has been budgeted for this, the first year of the program.

Advancing an integrated stroke strategy

In consultation with the Heart and Stroke Foundation of Nova Scotia and the South West Nova District Health Authority, we will spend $500,000 to pilot new efforts to prevent stroke and improve acute care, emergency care, and rehabilitative services for stroke survivors.

And, in co-operation with the Nova Scotia Hearing and Speech Clinic, we will introduce Sound Start, a new program that will test every newborn for hearing impairment and direct babies with hearing problems to early intervention services.

Self-managed attendant care

We are also committing $500,000 to operate Cape Breton's new methadone clinic, $750,000 to increase the personal care hours available to home care clients, and an additional $500,000 to expand the Self-Managed Attendant Care program. This program provides Nova Scotians with disabilities direct funding so they can control, manage, and pay for their own care needs.

These investments are just a few examples of the steps we are taking to ensure that Nova Scotians receive the care or assistance they need, when they need it, hopefully preventing many of them from prematurely requiring either hospital or long-term care.

More beds for better care

But even with these investments, we recognize that Nova Scotia's aging population requires an additional investment in continuing care. We recently opened an additional 32 long-term care beds at Grand View Manor in Berwick and announced 25 more for Cape Breton.

And, as Members know, the Department of Health is presently conducting province-wide consultations to identify the best approach to meet Nova Scotia's long-term care needs and to respond to communities where the need is most urgent.

Notwithstanding, we already have sufficient evidence to confirm that there are two significant pressure spots: Cape Breton and Halifax. That is why, this year, we will begin planning for an additional 100 long-term care beds in Cape Breton and another 100 to 150 beds for the area of Bedford-Sackville.

Of course, the program investments we are making would mean little without the necessary health-care professionals to deliver them.

More nurses in rural communities

That is why we are committing an additional $300,000 to enhance our nursing recruitment efforts. This investment will be used to attract and retain nurses in our rural communities and is an important addition to our successful Nursing Strategy, which, since 2001, has significantly increased the number of registered nurses working in Nova Scotia.

As well, beginning in September 2006, we will fund an additional 25 nurse training seats at Acadia University.

NOVA SCOTIA

A creative collaborative approach

We are also investing $650,000 to increase the number of community-based, multi-disciplinary teams available to serve the primary health-care needs of Nova Scotians. As part of this initiative, four additional nurse practitioners will be hired to support this creative, collaborative approach to health-care delivery.

And, Mr. Speaker, despite having one of the best doctor-to-patient ratios in the country, we know we cannot relax our efforts to ensure that every Nova Scotian has access to a family physician.

That is why, two years ago, we opened up eight new seats at Dalhousie Medical School. As a result, 16 medical students are now making their way through med school. This year we will provide an additional $450,000 to increase that number to 24 future doctors.

As you can see, Mr. Speaker, we are making significant new dollars available to reduce wait times, to provide health-care services closer to home, and to secure the right number and mix of health-care professionals needed to improve the quality of health care to Nova Scotians.

A healthier Nova Scotia

But there is no denying that unless we take the necessary steps to help Nova Scotians, particularly young Nova Scotians, make healthier choices, the budget for health care—which now represents 47.9 per cent of total program spending—will continue to eat up more and more of the dollars we have available to us.

That is why, two years ago, we became the first government in Canada to establish an Office of Health Promotion, with its own minister and budget.

Mr. Speaker, we made a commitment to double the budget of the Office of Health Promotion by year four of our mandate. This budget brings us within a shade of our goal—a full two years ahead of schedule.

The Office of Health Promotion will receive an additional $5.4 million, for a total of $23.9 million.

Included in this amount is an additional $1.8 million to implement some of the school-based initiatives I referred to earlier, such as our Sports Animators initiative and our Healthy Foods in Schools and breakfast programs.

Additionally, we will provide $360,000 to enable our district health authorities to hire additional public health nutritionists, who, as part of their responsibilities, will be working closely with our school boards to promote healthy food choices.

Problem gaming funding up

And, as announced with the release of our Responsible Gaming Strategy, $3 million has been earmarked for the prevention of problem gaming and for treatment services.

NOVA SCOTIA

The balance of the increase in the Office of Health Promotion budget will largely be used to:

- allow for a Chronic Disease Prevention Coordinator in every district health authority
- launch a new program aimed at reducing problem drinking
- further support our Injury and Suicide Prevention strategy
- enhance our Active Kids, Healthy Kids initiative

Changing unhealthy lifestyles

- and, in consultation and co-operation with our district health authorities, our community health boards, and numerous health charities, launch a social marketing program to help more Nova Scotians change their unhealthy lifestyles.

Mr. Speaker, last year we invested an additional $330,000 in KidSport, a program designed to help children from families of modest means participate in sport. This investment tripled the total dollars available to support low-income children and resulted in hundreds more young Nova Scotians joining their friends on the baseball or soccer field or at the local rink.

Active kids . . . healthy kids

This year, we have budgeted $1 million to provide parents who register their children in organized sport, or in recreational activities that support our goal of promoting physical activity, with an allowable tax deduction of $150 per child. Mr. Speaker, this is admittedly a modest first step, saving families approximately $15 dollars per child. But in time, and as revenues permit, we hope to increase the amount of the expense deduction and do more to help offset the cost of registering children in organized sport and recreation programs. This will come into effect on July 1, 2005.

This investment is over and above the dollars referred to earlier through the Department of Education and Office of Health Promotion and brings the total investment to promote good health and/or prevent disease and injury to $ 8.1 million.

The total operating dollars available across government to provide better health-care services or to enhance health promotion and prevent disease and injury amounts to over $2.6 billion.

More Help for Seniors, for People with Disabilities, for Low-Income Nova Scotians

Mr. Speaker, there is no denying that many parents are struggling with the cost of raising their families, many seniors struggling with the cost of maintaining their homes, many Nova Scotians with disabilities struggling to participate more fully in the lives of their communities.

That is why we have been doing everything we reasonably can to help those who are struggling to make ends meet or to make life better for themselves and their families.

That is why one of the first things we did as a government was lift the grandfather clause on our Senior's Property Tax Rebate Program, which provides seniors who receive the guaranteed income supplement with up to $400 to put toward their municipal property taxes.

Seniors' Pharmacare premiums frozen

It's why we froze Seniors' Pharmacare premiums at last year's level.

It's why, this past December, we increased the budget for seniors' home repairs by $1.1 million and increased the funding to upgrade seniors' housing units by $1 million.

It's also why we announced a home-heating fuel rebate program, capped property assessments, and took the steps to lower auto insurance premiums, saving consumers approximately $50 million.

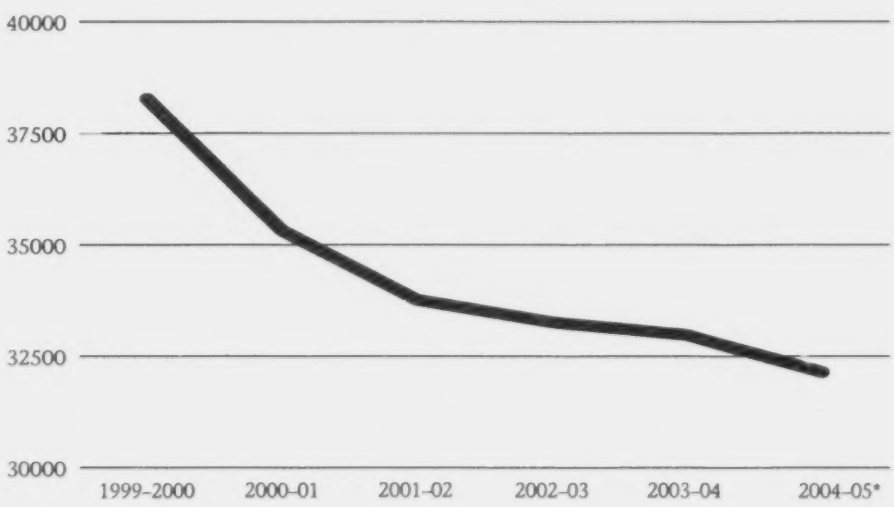
NOVA SCOTIA

And, Mr. Speaker, it's why we ended the National Child Tax Benefit clawback, introduced Nova Scotia's first Back-to-School Supply Program, launched Nova Scotia's highly successful School of Adult Learning, and significantly enhanced programs that help social assistance clients move from welfare to work, including adding more portable, subsidized day-care spaces and increasing the amount of the subsidy.

Helping Nova Scotians in need

Employment Supports and Income Assistance Program Caseloads 1999–2000 to 2004–2005

(total caseloads)



* Information for 2004-05 up to and including February

Mr. Speaker, we also increased funding to support a wide range of programs and services to support Nova Scotians with disabilities.

We recently provided an additional $2 million in capital grants to expand and/or repair Nova Scotia's sheltered workshops.

As well, and as noted earlier, we tripled the funding to support children with autism and introduced Nova Scotia's first wheelchair recycling program.

Over the past five years we also spent $1.4 million to make our buildings more accessible and $1.6 million to improve accessible transportation.

Mr. Speaker, once again, we will invest $250,000 to ensure that Nova Scotians with disabilities have access to their local church, community centre, legion, or library.

More for accessible transportation

We will also increase our support for accessible transportation services by increasing the subsidy currently provided to non-profit operators providing accessible transportation from $1.41 to $1.60 per capita. This brings the total amount we will invest this year to improve transportation for Nova Scotians with disabilities to $550,000.

Over the course of this year, we will also continue our efforts to make life better for seniors and low-income Nova Scotians.

I have already stated that we will invest an additional $17 million to hold the Seniors' Pharamcare premium at last year's level, increase the personal care hours for home care clients, provide more assistance to repair seniors' homes, and increase access to continuing care.

Personal use allowance for seniors up

In addition to this, effective January, 2006, the personal use allowance for seniors in long-term care who are currently receiving $105 per month will keep $115. And, in keeping with the changes we made when we moved from an asset- to an income-based calculation of a senior's contribution, seniors can now accumulate this money and use it for the purposes they wish, without any restrictions.

NOVA SCOTIA

Task Force on Aging

I am also pleased to announce that the budget for the Nova Scotia Senior Citizens' Secretariat will increase by $207,000. The additional dollars we are providing to the secretariat will be used to advance a strategy to prevent elder abuse and to carry out the important work of the Task Force on Aging, which has already held 34 public meetings, consulted more than 1,000 Nova Scotians, and received well over 100 written submissions on how government, in co-operation with all of its partners, can better utilize the skills of today's seniors and better prepare for the needs of our seniors in future.

Mr. Speaker, last year the Department of Community Services committed an additional $1 million to expand supports for adults in care. Another $1 million will be added this year. The total budget to support adults in care in fiscal 2005–06 is $162.2 million, a 33.6 per cent increase over the past five years.

More support for adults in care

Additionally, the monthly Personal Use Allowance for adults in care will also increase, from $105 to $115, effective January, 2006.

We are also increasing the Shelter Allowance for single income-assistance recipients who are either renting or boarding. The monthly allowance for renters will increase by $50, while boarders will see an additional $25 per month.

As well, on October 1, 2005, and for the second year in a row, we will increase the personal allowance budget for all social assistance clients for a two-year increase total of $4.6 million.

Meeting the housing needs of our seniors and families of modest means is also a priority of this government.

To date, more than $19 million has been announced by the provincial and federal governments for the construction or renovation of more than 400 units in the province, since the Canada-Nova Scotia Affordable Housing Agreement was signed in September of 2002.

Additional units, such as the 66 units announced for Northwood and the recently announced seniors' housing project in St. Andrews, Antigonish County, will soon come on stream.

Investing in affordable housing

It is estimated that by 2008 the Canada–Nova Scotia Affordable Housing Agreement will have spent more than $56 million to support the housing needs of seniors and low-income families.

Mr. Speaker, Nova Scotia welcomed the recent announcement by the Government of Canada to significantly increase its contribution to early childhood development.

Just as we have in the past, we will use every dollar resulting from our agreement with Ottawa to maximize the benefits to parents and their children.

And, just as we have in the past, we will broadly consult with all of the stakeholders who share our desire to make the most effective use of every dollar available to support the interests of Nova Scotia's children.

Early childhood development

We anticipate that the combined new federal and provincial dollars available to support the early learning and lasting success of children aged six and under, will almost double this year.

Mr. Speaker, in addition to the $22-million increase the Department of Community Services is receiving this year, the Department of Justice will also invest more to help low-income Nova Scotians.

NOVA SCOTIA

Funding for Legal Aid will increase by $1.4 million. As well, funding for maintenance enforcement will increase by $309,000, and grants to transition houses and men's treatment programs by $250,000.

Legal aid funding up

Mr. Speaker, admittedly, the dollars we are investing this year to support Nova Scotians in need won't make life perfect for everyone. But they should go a long way toward making life a little easier for many of our seniors, for many Nova Scotians with disabilities, and for many families of modest means.

But, as we all know, Mr, Speaker, this could all disappear in an instant without a steady hand on the wheel and a solid plan to grow our economy.

Planning and Delivering a Stronger Economy

Mr. Speaker, there are a wide range of factors that go into supporting a growing economy: fiscal stability; a competitive tax and regulatory environment; support for research and development; a strong, integrated transportation network; a quality education system; and of course, quality of life.

And there's something else that contributes to a growing economy, solid planning.

Building on progress

When we came to office in 1999 there was no focused plan to generate new investment or create new jobs. There was no energy plan, no debt-reduction plan, no immigration plan. There was no plan to revitalize our public school or community college systems, no plan to create a culture of healthy living.

So we got to work, knowing we had a lot to accomplish in a very short time.

Today, after broadly consulting Nova Scotians from one end of the province to the other, we have plans for all of the above, and Mr. Speaker, they are working.

More jobs for Nova Scotians

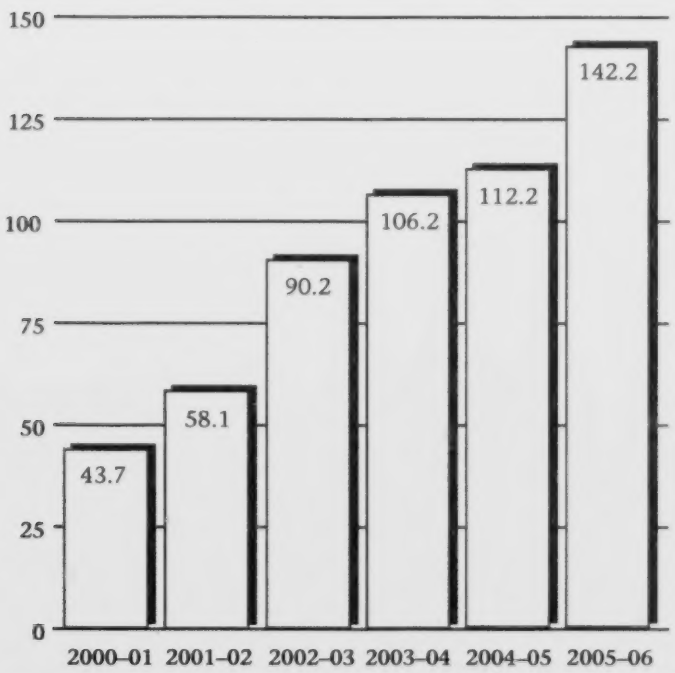
Over 38,000 new jobs have been created—more than 10,000 in the past year alone. And, as I have already noted, our fiscal health continues to improve.

But more needs to be done to build on our progress.

That is why we are investing an additional $30 million to build or repair our roads this year, bringing the total capital budget for highway spending to $142 million. And next year's capital budget will either meet or exceed that amount.

Capital Highway Spending
2000–2001 to 2005–06

(In $Millions)



NOVA SCOTIA

All gas taxes go to roads

It is important to note that every cent and more of the motive fuel tax we collect is spent maintaining and improving our roads, replacing our bridges, or making our highways safer.

Our rail connections are also vitally important to our economy. And that is why we are providing an additional $1.5 million to ensure that Cape Breton's only commercial rail link to the mainland remains in operation until at least 2009. This investment will provide potential investors with the added assurance that they can locate in Cape Breton and get their products to market.

Mr. Speaker, Nova Scotia's offshore has provided a significant boost to Nova Scotia's economy in recent years. In order to ensure that Nova Scotia does not lose out on any opportunities for future development, the Department of Energy will step up our efforts to assess the potential of new offshore development and aggressively share its findings with the oil and gas sector.

More support for small business

Mr. Speaker, Nova Scotia's small and medium-size businesses continue to generate the majority of new jobs that are being created across our province. In order for them to create even more, we are making a number of important investments, including providing an additional $500,000 to help them access new export markets and increasing the funding to our Supplier Development Program by $250,000. This program makes Nova Scotia businesses aware of the wide range of opportunities for selling their goods or services to government and supports our goal to do more to stimulate business growth and job creation within our province.

More support for research and development

We are also investing another $5 million in Nova Scotia's Research and Innovation Trust Fund. Since its inception in March 2001, this fund, which is administered by our universities, has helped leverage over $55 million in new research dollars, dollars that are being used to turn good ideas into commercial success stories.

There is no denying that Nova Scotia's tax and regulatory environment also plays an important role in business growth and job creation.

Eliminating a burdensome tax

For over 10 years the province and the Union of Nova Scotia Municipalities have been working on a way to eliminate the Business Occupancy Assessment Tax. This tax sends the wrong message to potential investors and is an outdated, awkward, and inefficient method of collecting commercial taxes, resulting in significant lost revenues to the municipalities. I am pleased to say, that after many attempts to find a fair and balanced way to end this double tax, we have agreed on an approach that will address the concerns of small business, while at the same time protecting the interests of residential taxpayers and municipalities. Legislation to eliminate the Business Occupancy Assessment Tax will be introduced this session.

This is just one example of our efforts to reduce red tape and to send a positive message to investors.

Here is another.

We will shortly establish a new approach to address regulatory duplication across and between governments. The Department of Environment and Labour will receive an additional $500,000 to establish a new Competitiveness and Compliance office to examine and implement best practices for making it easier for businesses and individual Nova Scotians to deal with government.

A business-friendly environment

This initiative, along with our recent agreement with the Government of Canada to expedite the regulatory process for dealing with offshore gas proposals, and along with the considerable progress already made through the Red Tape Reduction Task Force, speaks to our efforts to make Nova Scotia the most business-friendly environment in Canada.

NOVA SCOTIA

Fourth increase in small business threshold

Mr. Speaker, for three years in a row we have increased the small business tax threshold, saving qualifying businesses as much as $12 million. Effective April 1, 2005, we will once again increase the threshold, from $300,000 to $350,000, saving Nova Scotia's small businesses an additional $1.25 million this year. On April 1, 2006, the threshold will increase again to $400,000.

Effective July 1st of this year, the large corporation tax will be reduced from 3 per cent to 2.75 per cent, at a cost of $4.5 million. And over each of the next three years it will be reduced by another quarter per cent annually, reducing it to 2 per cent.

Mr. Speaker, our plans to further grow the economy are not limited to our infrastructure investments, our education investments, our investments in research and development. They are not limited to our small business program enhancements, our red tape reduction efforts, or the tax measures I just referenced.

Funding to support immigration

We know that our future economic success depends to a great extent on encouraging more people to come and stay in Nova Scotia. That is why we recently announced a strategy to promote Nova Scotia as the best place to live, work, and raise a family. To further these efforts we will provide the newly established Office of Immigration with an annual budget of $2.6 million.

Come to Life

And we will make an additional $2.5 million available to support our Come to Life brand initiative. Mr. Speaker, branding is not simply coming up with a song, slogan, or logo. It's about a lot more than that. It's about changing and shaping misguided attitudes. And it's about making sure that when people the world over hear the words "Nova Scotia" they have an immediate and positive reaction.

NOVA SCOTIA

We have a great story to tell, Mr. Speaker, and we are going to tell it. We're going to aggressively sell Nova Scotia and all it has to offer, whenever and wherever we can.

Among other things, we're going to tell them that Nova Scotia is home to many of the world's leading companies and has some of the finest research institutes and universities found anywhere in Canada and beyond.

Telling our story

We're going to tell them that we have the best-educated workforce in the country and are one of the hottest film destinations in North America.

We're going to tell them that Nova Scotians are smart, innovative, and generous.

And we're going to tell them that Nova Scotia's quality of life offers them a rare commodity—balance.

Mr. Speaker, I am confident that, over time, those who have wrongly branded our Brand Initiative will see the value of our investment.

Here are some other notable investments we are making to grow our economy and to support our efforts to demonstrate that Nova Scotia is a great place, not just to come and visit for a while, but a great place to come and stay forever.

Supporting our cultural industries

To support our cultural industries we will match the dollars we provided last year to launch Nova Scotia's first Music Strategy, increase funding to our network of community museums, and as previously announced, provide an additional $600,000 to the Nova Scotia Film Development Corporation. In addition, the film tax credit will increase from 30 to 35 per cent in urban areas and from 35 to 40 per cent in rural Nova Scotia.

As well, in consultation with the Nova Scotia Federation of Heritage, we will develop a new strategy to preserve Nova Scotia's rich heritage.

NOVA SCOTIA

New energy efficient housing program

To further protect our environment, we will provide the Energy Department with an additional $1.2 million to advance new climate change initiatives and to fund a new Energy Efficient Housing Program.

Natural Resources will see an increase of $750,000 to further protect Nova Scotia's Crown land base, and another $800,000 to establish an Integrated Enforcement Task Force, exclusively dedicated to the enforcement of off-highway vehicle compliance. As well, the Public Prosecution Service will be given additional dollars for a dedicated crown attorney to handle occupational health and safety and environmental offences.

An additional $500,000 will also be provided to the Department of Agriculture and Fisheries to help reverse Nova Scotia's declining recreational salmon fishery and another $250,000 to establish a new Commercialization Centre designed to develop new agri-food, seafood and bioresource materials.

Protecting our environment

As well, as was demonstrated with the purchase of Cape Split, the designation of Eigg Mountain and Gully Lake as protected places, and the the agreement recently signed between the Province of Nova Scotia and the Nova Scotia Nature Trust, we will continue to work to safeguard Nova Scotia's protected places and species at risk.

To ensure that Nova Scotia communities continue to be safe places to live, work, and raise families, the Department of Justice has budgeted $1 million to bring the province's municipal police forces into a national, intelligence-based policing system. Funding for this important initiative will increase to $1.7 million in each of the next three years for a total four year investment of $6.1 million.

Mr. Speaker, I know I have challenged the patience of some members, so let me quickly recite a number of the other initiatives and investments we are making to support stronger communities and a stronger economy.

Investing in municipal infrastructure

We will also continue to assist municipalities across the province with the cost of providing their residents with safe drinking water, better sewage systems, and new roads. In addition to the current $195 million Canada-Nova Scotia Municipal Infrastructure Program, it is our intention to enter into a new $111 million Municipal-Rural Infrastructure Agreement with Ottawa. The Province is prepared to contribute $ 37 million toward this new fund over the next six years.

As well, we will invest an additional $200,000 to advance our strategy to promote community development and an additional $350,000 in core funding to Regional Development Authorities across the province.

In addition, we will increase the provincial grant in lieu of taxes for university residences from 40 per cent to 50 per cent, providing eligible municipalities with an additional $250,000 to support the needs of their residents.

Protecting Your Tax Dollars

Finally, Mr. Speaker, let me sum up with a note to taxpayers. As we have throughout our mandate, we will continue to work hard to be open and transparent and to manage their tax dollars carefully and wisely.

More for Office of Auditor General

The Auditor General's Office will receive an additional $146,000 this year, exclusive of salary adjustments, in order to ensure independent scrutiny is more fully brought to bear on how government manages taxpayers' money.

NOVA SCOTIA

The Department of Finance will also receive $375,000 more to increase its auditing and risk management capacity; while Service Nova Scotia and Municipal Relations will receive $125,000 more to enhance internal controls, and an additional $125,000 for consumer protection and compliance.

As well, the Public Service Commission will receive an additional $2 million to advance an aggressive Human Resource Strategy designed to help the province recruit and retain talented people who can further the interests of the province and provide top-quality service to Nova Scotians.

As part of this strategy, we will increase funding for Career Starts and more aggressively promote diversity throughout the public service.

All told, Mr. Speaker, this budget should further assure Nova Scotia taxpayers that their government is managing their tax dollars carefully and always with a view to building a better Nova Scotia tomorrow.

Conclusion

Colleagues, this is a big day for all of us; but for most Nova Scotians it's just like any other day.

But when they get dressed for work tomorrow, they should feel better knowing their government is investing in better roads for them to drive on and a stronger economy they can count on.

When they get their kids up and ready for school, they can feel better knowing their government is investing in a healthier future and a better education for their children.

When they go off to visit an aging parent, they can feel better knowing their government is investing in better health care, more affordable housing, and new programs to help seniors live longer, more comfortably, at home.

And all Nova Scotians should feel better knowing the province's fiscal, social, and economic health continues to steadily improve.

Mr. Speaker, this isn't just the right budget for today but the best budget for building a better Nova Scotia tomorrow.

Thank you.

It's all about a better Nova Scotia

NOVA SCOTIA

Total Ordinary Revenues 2005–2006

Key Assumptions — March 2, 2005

NOVA SCOTIA
Auditor General

1888 Brunswick Street
Suite 302
Halifax, Nova Scotia
B3J 3J8

REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE FOR THE FISCAL YEAR ENDING MARCH 31, 2006 USED IN THE PREPARATION OF THE APRIL 26, 2005 BUDGET ADDRESS

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2006 (the 2005-06 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 2, 2005. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2005-06 revenue estimates of $6,444,214,000 for total revenue as per Schedule 6 in the Financial and Supplementary Information section. My opinion does not cover the budget address, the 2004-05 forecast, the 2005-06 spending estimates, sinking fund earnings, nor recoveries, user fees or other income netted for annual appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2005-06 revenue estimates have been presented including the total revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations reported as revenue in the Province's consolidated financial statements are excluded from the 2005-06 revenue estimate for total revenue, but included elsewhere in the 2005-06 estimates, and have not been included in my examination.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion,

- as at the date of this report, the assumptions used are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2005-06 revenue estimates; and
- the 2005-06 revenue estimates as presented reflect fairly such assumptions.

Since the 2005-06 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matter discussed above, the 2005-06 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E R Salmon

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 21, 2005

NOVA SCOTIA

Key Assumptions

Prepared March 2, 2005 and approved by Executive Council on March 10, 2005

Economic Performance and Outlook

National Economic Assumptions

Canada achieved a real GDP growth rate of 2.8 per cent in 2004, compared to 2.0 per cent in 2003. The driving force was the strength in domestic demand, mainly due to consumer spending and business investment.

The resilience and strength of the Canadian economy contributed to a strong labour market in 2004, producing 284,600 jobs. The unemployment rate fell to 7.2 per cent, as the labour force grew at a slower pace than employment.

Canada's exports of goods and services grew 7.1 per cent in 2004, reflecting continued growth of 4.4 per cent in its main trading partner—the United States. The international trade surplus was positive as exports outstripped imports, despite the higher exchange rate.

Canada's economic outlook in 2005 and 2006 remains healthy. Low inflation should pave the way for a low interest rate environment, which should help to stimulate business investment.

Real GDP growth is expected to increase marginally to 3.0 per cent in 2005 and fall back to 2.8 per cent in 2006.

NOVA SCOTIA

The Canadian economy showed signs of weakening in late 2004 as a result of the continued appreciation of the Canadian dollar. With the expectation that commodity prices will not ease until the second half of 2005 or later, the exchange rate should hover around 80 cents in 2005. As long as commodity prices remain high in relative terms, they will offset the impact of the high exchange rate.

With the Canadian economy expected to perform at its real potential growth rate in 2005, there will be little chance for inflation to become a serious threat to monetary policy. Residential investment has been strong for a number of years and is expected to cool down over this year and into next.

While corporate financials remain healthy, the pace of profit growth should level off over the next two years, as commodity prices plateau and exports keep pace with US nominal GDP growth. Consumer spending growth is expected to remain strong, although a potentially lower housing demand will reduce the need for consumer durables.

Job creation in 2005 could slow somewhat, as businesses dealing in international markets attempt to reduce costs to become more competitive. The forecast calls for employment growth of 1.5 per cent in 2005 and 1.9 per cent in 2006. The unemployment rate is expected to remain stable at 7.2 per cent in 2005. The Consumer Price Index (CPI) is expected to grow at an annual rate of 1.7 per cent in 2005, before increasing to 2.2 per cent in 2006.

The key risk factor for economic growth in Canada is the performance of the US economy. Growth could slow somewhat, with US GDP projected to grow at 3.5 per cent. The pace of US employment growth will dictate the degree to which Canadian exports will continue to grow.

The twin budget and current account deficits in the US could have continuing impacts on exchange rates. Given the self-correcting nature of international financial markets, a further appreciation of the Canadian dollar is likely.

The forecast assumes that interest rates will remain stable in the first half of 2005. The combination of high commodity prices and the US deficits will put more pressure on the exchange rate. This could develop into a smaller trade surplus and a slowdown in manufacturing output and employment. This may in turn put pressure on Canadian interest rates, but it is unlikely to outweigh the positive impact of high commodity prices on corporate profits.

Commodity prices have shown no sign of easing, but they will peak at some point. With crude oil inventories positive and productive capacity increasing, prices should begin to decline. A softening housing market would cause lumber prices to drop.

Residential investment could dip, even in a low interest rate environment. To some degree, the consumer spending forecast hinges on the outlook for income and employment growth. The main risk on the consumer side is debt loads. At over 105 per cent of personal disposable income, debt loads may be peaking. Any bursting of the real estate bubble could spell the end of this huge run-up in debt loads.

Corporate financials are healthy heading into 2005. High commodity prices will benefit the resource sector, but a high exchange rate may offset this benefit in other sectors. The potential remains for strong business investment financed by continued profits, low interest rates, and a favourable exchange rate for those importing machinery and equipment.

NOVA SCOTIA

The key national economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of March 2, 2005.

National Forecast Assumptions

	2004	2005	2006
Real Gross Domestic Product, 1997$ (% change)	2.8	3.0	2.8
Employment (% change)	1.8	1.5	1.9
Unemployment Rate (%)	7.2	7.2	6.8
Personal Income (% change)	4.1	4.0	4.5
Consumer Price Index (% change)	1.9	1.7	2.2
Retail Sales (% change)	5.0	5.2	5.6
Corporation Profits before Taxes (% change)	17.7	7.1	3.0
Exports of Goods and Services (% change)	7.1	5.4	4.4

Sources: Statistics Canada for 2004, Nova Scotia Department of Finance projections for 2005 and 2006

Provincial Economic Assumptions

The Nova Scotia economy was also affected by rising commodity prices and an appreciating exchange rate in 2004, with an estimated 1.5 per cent growth rate in real GDP. Nominal GDP expanded 4.6 per cent. Real growth was much less because of inflation, as the GDP deflator increased 3.1 per cent in 2004.

The engine of positive economic momentum was fueled by good income and employment growth, as well as strong residential and machinery and equipment investment growth. Exports also improved, growing more in line with the historical average over the previous seven years.

The labour market was very positive in 2004, with Nova Scotia having the highest employment growth in the nation. Employment grew 2.4 per cent, with Nova Scotia posting a 10,300 net gain in jobs across a wide range of sectors.

Personal expenditures on goods and services increased an estimated 3.9 per cent, with retail sales increasing only 2.5 per cent. Spending on housing construction was 10.5 per cent higher, even though housing starts fell 7.4 per cent.

Increases in new house prices combined with robust renovation investment offset the decline in housing starts. The tempo of consumer spending was higher than growth in personal income of 2.6 per cent and growth in labour income of 3.0 per cent.

A dip in investment income and slower growth in government transfers offset some of the robust labour income growth. The former fell because of low interest rates, while the latter retrenched because of continued positive employment growth.

Business investment in non-residential structures fell 7.6 per cent, while business investment in machinery and equipment increased 6.9 per cent. A lack of large projects, beyond the Halifax Harbour Solutions Project, meant that business building investment was down. Machinery and equipment investment benefitted from the rising exchange rate.

On the international side, it appears that exports did well as a result of rising commodity prices. Natural gas, tires, seafood products, fish, pulp and paper, and sawmill products accounted for 59 per cent of Nova Scotia's international merchandise exports of goods in 2004.

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For 2004, commercial production of natural gas was down 4.5 per cent over 2003. However, natural gas wellhead prices were up 12.6 per cent in US dollar terms, according to the US Department of Energy. After allowing for the appreciation in the Canadian dollar, natural gas prices were up by roughly 5 per cent in 2005. The value of natural gas exports to international markets was down 1.0 per cent in 2004. Overall, the total value of exports of goods and services was up 7.4 per cent in 2004.

Corporate profits before taxes were up 10.0 per cent in 2004, in conjunction with increased exports from the province and high commodity prices.

The economic outlook for Nova Scotia depends to a great extent on conditions prevailing in the economies of its principal trading partners, the United States and the rest of Canada. Expected activity in these economies suggests positive real growth in a low interest and inflation rate environment.

Nova Scotia's growth for 2005 and 2006 is forecast at 2.1 per cent and 2.6 per cent growth in real GDP. Employment is forecast to increase 1.5 per cent and 1.0 per cent in 2005 and 2006, respectively.

Close to 50 per cent of Nova Scotia's GDP is directly attributed to the export of goods and services. Total exports of goods and services are expected to increase 4.2 per cent in 2005, while corporate profits before taxes are projected to expand 6.5 per cent. Personal expenditures on consumer goods and services are expected to grow 4.2 per cent, with retail sales returning to a healthy growth of 4.4 per cent in 2005.

Offshore energy exploration and development investment spending continue to add to GDP and employment growth in the economy. In addition, capital investment over the next few years reflects other major projects, including the Halifax Harbour Solutions Project.

The Deep Panuke gas project remains on hold, but expenditures continue to flow from the development of Tier II of the Sable Offshore Energy Project (SOEP). The South Venture gas field was brought on stream in 2004, and a compression platform will be installed on the Thebaud processing platform in 2006.

There is potential for at least two liquified natural gas (LNG) plants to be developed beyond 2005. These have been excluded from the economic outlook because they have yet to receive all the necessary regulatory approvals and/or secure long-term supply contracts.

Offshore energy development and production affects Nova Scotia's economy in different ways. The impact of SOEP production on GDP growth occurs primarily through exports and corporation profits before tax. Natural gas output is forecast to continue to fall in 2005 by another 2.0 per cent. Since the price of natural gas is expected to level off, further dips in export values are anticipated.

In total, business capital investment in Nova Scotia is expected to increase 1.6 per cent in 2005. Residential construction is expected to be flat because of market absorption of pent-up demand in prior years. Non-residential construction should post negative growth because of fewer mega-projects compared to prior years. Machinery and equipment investment is expected to be positive enough to offset business investment in structures.

Employment is forecast to increase 1.5 per cent and 1.0 per cent in 2005 and 2006 respectively, while the unemployment rate should decrease to an estimated 8.5 per cent in 2005.

A moderation in labour markets should result in a stable unemployment rate of 8.6 per cent in 2006.

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Despite slowing employment growth in 2005, increases in labour income per employee should lead to modest personal income growth of 3.5 per cent in 2005. Slower employment growth in 2006 leads to an easing of personal income growth to 3.3 per cent in 2006.

Nova Scotia's real GDP is at the low end of the range of private-sector forecasters in 2005 and near the average in 2006, as shown in the table below:

Private-Sector Forecasts for Nova Scotia Real GDP Growth

	2005	2006
High (% increase)	2.9	2.8
Average (% increase)	2.5	2.4
Low (% increase)	1.8	1.8

The private-sector forecasters, surveyed and updated as of March 2, 2005, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, Atlantic Provinces Economic Council, Nesbitt Burns, National Bank, and Conference Board of Canada.

Economic risks for the Canadian economy also apply to Nova Scotia, especially in relation to the performance of the US economy. Nova Scotia faces similar risks to Canada in household spending, the exchange rate, and, on the positive side, commodity prices.

There is a risk of higher inflation in Nova Scotia than Canada, based on early indications for 2005, and for further declines in the housing market if incomes and employment end up below the forecast.

The assumptions concerning the pace of offshore energy exploration in the short term could be tempered by the reassessment of drilling programs from recent exploration results, which will reduce capital investment and lower economic growth. Also, should energy prices move lower than assumed, SOEP production

revenues would drop in step. This would be negative for corporation profits and the value of exports.

In the last two years, retail sales growth was under 3 per cent, and the past Christmas season was sub par. With consumer spending also slowing in recent years, there is an added risk that Nova Scotia could see personal debt loads have an even bigger impact—especially since Nova Scotian incomes are roughly 90 per cent of the national level on a per capita basis to begin with.

Electric utility rates increased as a result of a Utility and Review Board ruling on March 31, 2005. When combined with high oil prices, this could have a dampening impact on consumers, businesses, and governments.

The key provincial economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of March 2, 2005.

Provincial Forecast Assumptions

	2004	2005	2006
Real Gross Domestic Product, 1997$ (% change)	1.5	2.1	2.6
Nominal Gross Domestic Product (% change)	4.6	4.3	3.7
Employment (% change)	2.4*	1.5	1.0
Unemployment Rate (%)	8.8*	8.5	8.6
Personal Income (% change)	2.6	3.5	3.3
Consumer Price Index (% change)	1.8*	1.9	2.0
Retail Sales (% change)	2.5*	4.4	5.6
Corporation Profits before Taxes (% change)	10.0	6.5	4.2
Exports of Goods and Services (% change)	7.4	4.2	4.8

Sources: Statistics Canada, actual (*), Nova Scotia Department of Finance Projections.

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Revenue Outlook—April 7, 2005

In 2005–2006, total ordinary revenues for the Province of Nova Scotia are estimated to be $6,097.6 million, an increase of 4.4 per cent over the 2004–2005 forecast. Own-source revenues are expected to increase by $125.5 million over the 2004–2005 forecast to $3,836.6 million in 2005–2006. Federal transfers will increase by $111.5 million from 2004–2005 forecast levels.

Revenue Sources ($ Thousands)	Actual 2003–2004	Forecast 2004–2005	Estimate 2005–2006	Change For. to Est.
Provincial Sources				
Personal Income Taxes	1,350,071	1,456,648	1,553,568	96,920
Corporate Income Taxes	232,710	316,136	350,177	34,041
Sales Tax (HST)	975,204	1,031,116	1,068,935	37,819
Tobacco Tax	161,715	181,854	177,567	(4,287)
Gasoline and Diesel Tax	249,900	249,816	256,895	7,079
Interest Revenues	60,473	68,999	72,413	3,414
Registry of Motor Vehicles	77,546	86,652	87,716	1,064
Other Provincial Sources	263,316	319,890	269,333	(50,557)
Total Provincial	3,370,935	3,711,111	3,836,604	125,493
Federal Sources				
Equalization	1,114,487	1,321,407	1,343,527	22,120
CHST	612,406	0	0	0
CHT	0	425,925	578,410	152,485
CST	0	244,867	257,408	12,541
CHST Supplement	74,447	58,600	0	(58,600)
Other Federal Sources	31,941	98,713	81,631	(17,082)
Total Federal Sources	1,833,281	2,149,512	2,260,976	111,464
Prior Years' Adjustments				
Provincial Sources	145,504	(44,422)	0	44,422
Federal Sources	(2,623)	25,111	0	(25,111)
Total Ordinary Revenue	**5,347,097**	**5,841,312**	**6,097,580**	**256,268**

Key Assumptions

Provincial Own-Source

Income Taxes

Personal Income Tax (PIT)

The 2005–2006 estimate for personal income tax on a fiscal year basis rises 6.7 per cent over the 2004–2005 fiscal year forecast. Nova Scotia's share of national taxable income is expected to grow about 5.1 per cent over 2004–2005, and combined with an expected slight rise in yield on taxable income, net provincial personal income tax is expected to rise 6.1 per cent over 2004–2005 on a tax-year basis and 6.7 per cent after fiscalization. The estimate is based on national level taxable income supplied by the federal government as of January 26, 2005.

Nova Scotia uses federally determined taxable income as its base and has maintained the non-refundable tax credits in effect for the 2004 tax year.

Corporate Income Tax (CIT)

Corporate income tax, on a fiscal year basis, is expected to rise significantly by 10.8 per cent or $34.0 million over 2004–2005. CIT is based primarily on federally forecasted corporate taxable income, as of January 26, 2005, and is affected by other variables, such as business take-up of provincial tax credit programs.

While provincial level corporate profits are expected to rise by 6.5 per cent, estimated provincial corporate taxable income is expected to increase by 7.4 per cent, reflecting strong national growth in corporate taxable income of 7.5 per cent. Expected credit take-up in 2005 is moderately lower than in 2004, with credits falling to $30.6 million from $38.8 million, primarily due to the sunset of the manufacturing investment tax credit.

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Consumption Taxes

Harmonized Sales Tax (HST)

Gross HST is estimated to total $1,159.7 million in 2005–2006, up $41.4 million from 2004–2005. Sales tax rebates for public sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, and segregated funds are projected to total $90.8 million, resulting in net HST of $1,068.9 million in 2005–2006, a 3.7 per cent increase over the previous fiscal year.

The growth in gross HST revenues between 2004–2005 and 2005–2006 is primarily due to continued growth in personal consumer expenditures on goods and services, which represents over 70 per cent of gross HST receipts.

Tobacco Tax

Revenues from this source are estimated to total $177.6 million in 2005–2006, a 2.4 per cent decline over the forecast for 2004–2005. The decrease is primarily due to the forecast of a small drop in the consumption of tobacco products in line with long-term trends.

Tobacco taxes are unchanged from the previous fiscal year, with the last increases effective on March 17, 2004, including a $5 per carton cigarette tax increase. It is anticipated that federal and provincial governments will continue to undertake efforts to discourage smoking, especially amongst youth.

The Government of Nova Scotia, in conjunction with the federal and other provincial governments, will continue to explore initiatives to improve compliance with tobacco taxation legislation and regulations.

Motive Fuel Taxes

Motive fuel tax revenues are projected to total $256.9 million in 2005–2006, a rise of $7.1 million or 2.8 per cent over the forecast for 2004–2005, with taxes on gasoline and diesel fuel remaining unchanged from the previous fiscal year. The additional tax revenue is primarily due to continued increases in consumer consumption as a result of increasing labour income, which are partially offset by higher fuel prices. Gasoline consumption in the province is expected to rise to 1.227 billion litres, up from 1.200 billion litres in 2004–2005.

Government Business Enterprises—Revenues

Nova Scotia Gaming Corporation

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $160.9 million in 2005-2006. This is a decrease of 5.2 per cent compared to the 2004-2005 projected net income. This decline is attributable to four factors: (1) a net decline in the video lottery business line largely attributable to the impact of the Gaming Strategy measures, which reduces net income by $19.0 million; (2) an increase in net income from Ticket Lottery of 16 per cent due to anticipated growth in sports games and Lotto 6/49 as well as rejuvenation in some of the instant ticket categories; (3) an increase in net income from the Halifax Casino due to modest revenue growth (2 per cent) and a reduction in amortization and interest expense; and, (4) an increase of $1.6 million in NSGC's responsible gaming expenditures plus an additional $3.0 million to the Office of Health Promotion for prevention and treatment programs, pursuant to the Gaming Strategy.

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Nova Scotia Liquor Corporation Profits

Beverage alcohol profits are estimated to be $177.1 million in 2005–2006, a 4.1 per cent increase over the 2004–2005 forecast. The increase in the returns from the NSLC will be driven by a continued focus on improving product selection, product variety, and customer service. It will also focus on locating its stores in areas that are representative of current consumer shopping patterns and markets. The NSLC will continue to pursue locations with grocery stores within the province in response to these challenges.

Federal Transfers

Equalization

Equalization revenues are estimated to increase by $22.1 million over forecast 2004–2005 to $1.3 billion. The Equalization estimate reflects the new framework for the Equalization program announced at the October 2004 First Ministers' Meeting on Equalization. Under the new framework, provincial Equalization entitlements for 2005–2006 are preset at a legislated level, and therefore, the Province has booked the federal estimate for 2005–2006.

The Canada Health Transfer (CHT) and The Canada Social Transfer (CST)

The Canada Health and Social Transfer (CHST) was restructured in the 2003 federal budget. Effective April 1, 2004, two new transfers have been created—the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

In 2005–2006, the CHT cash entitlement for Nova Scotia is estimated to be $578.4 million, $152.5 million higher than the 2004–2005 CHT forecast. The total provincial entitlement consists of the provincial allocation of a fixed national entitlement. The 2005–2006 national CHT amount that is available in cash and tax points is forecast to be $30.5 billion. The higher CHT base in 2005–2006 reflects the outcome of the First Ministers' Meeting on Health Care held in September 2004. The cash estimate reflects the federal calculation on the levels of population and personal and corporate income tax.

Nova Scotia's 2005–2006 cash entitlement for CST is $12.5 million higher than in 2004–2005 and is forecast to stand at $257.4 million. The provincial entitlement consists of the provincial allocation of a fixed national entitlement, which stood at $15.3 billion in cash and tax points. The cash estimate reflects the federal calculation on the levels of population and personal and corporate income tax.

Other Federal Sources

The Other Federal Sources category primarily reflects the agreement reached between Nova Scotia and the Government of Canada on the Canada–Nova Scotia Offshore Petroleum Resources Accord to make Nova Scotia the primary beneficiary of its offshore resources. Receipt of the funds provided for under the Offshore Agreement is contingent upon passage of the federal government's Bill C-43, *The Budget Implementation Act, 2005*.

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In addition, other federal sources include the federal government change to the Equalization offset provision of the Canada–Nova Scotia Offshore Petroleum Resources Accord. This change was to recognize that Nova Scotia did not receive the expected benefits of this provision when it was originally triggered. Bill C-43 authorizes the payment of $34.0 million to the province of Nova Scotia in 2004–2005. The federal government will make an additional payment of $4.0 million in 2005–2006.

Other federal sources also include the federal Wait Times Reduction Fund. This funding will be drawn down according to the notional allocation included the Wait Times Agreement and provincial spending commitments.

The federal government has committed, either through its 2005 budget or previous legislation, to additional funding for the province that is explicitly tied to specific projects and provincial expenditure. This additional spending includes funding for diagnostic and medical equipment, immunization and public health, and early learning and child care. The province does not account for this funding in the Ordinary Revenues but as a federal recovery under the appropriate department.

Sensitivity

Revenue estimates are based on a number of economic, financial, tax assessment, and statistical values and assumptions. As these variables change throughout the year and as more information becomes available, they may have an impact, either negatively or positively, on the revenue forecasts.

It is important to note that these variables can move quite independently from each other and may have offsetting effects. The following table lists the major revenue sources of the province and indicates some of the key variables that affect the forecasts of those sources throughout the year.

Revenue Source	Key Variables
Personal Income Taxes	• national level of taxable income
	• Nova Scotia's share of national levels of taxable income
	• provincial taxable income yield
Corporate Income Taxes	• corporate taxable income level (national)
	• Nova Scotia's share of national taxable income
	• tax credit uptake
	• national and provincial corporate profit levels
HST	• personal consumer expenditure levels
	• spending by exempt industries
	• rebate levels
	• housing investment
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels
	• tobacco and fuel consumption patterns
	• tobacco and fuel prices
Equalization	• equalization is fixed for 2005–2006
	• no adjustment to the estimate
CHT/CST	• changes in personal and corporate income taxes
	• changes in population
	• changes in tax point values

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Additional Information

In addition to the key economic and fiscal assumptions contained in the 2005–2006 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2005–2006 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its Consolidated Fund. As a result, revenue for certain government service organizations, which are consolidated for financial statement purposes, are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2005–2006 using a combination of current internal and external models and other information available. Every effort has been taken to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecast to be received through federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of April 7, 2005. Prior years' adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the forecast for 2004–2005.

Recoveries of expenditures under various federal-provincial agreements or from other departments or entities, user fees, and income on sinking fund investments have been estimated and are netted against departmental expenditures for purposes of approval of appropriations for 2005–2006.

Any and all impacts or implications of the government's actions or plans to reduce or further control public sector expenditures have been fully considered and appropriately reflected in the specific economic and revenue estimates.

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Financial Information

To the Budget Address 2005–2006

NOVA SCOTIA

Budgetary Information

To the Budget Address 2005–2006

BUDGETARY SUMMARY - STATEMENT OF OPERATIONS

($ thousands)

Schedule 1

ESTIMATE 2003-2004 (as restated)	ACTUAL 2003-2004 (as restated)	ESTIMATE 2004-2005 (as restated)	FORECAST 2004-2005		ESTIMATE 2005-2006
				Consolidated Fund	
5,302,316	**5,347,097**	**5,574,172**	**5,841,311**	**Ordinary Revenue (1)**	**6,097,580**
				Net Expenses	
4,756,480	4,797,165	5,077,630	5,236,019	Net Program Expenses	5,496,275
(13,600)	(14,536)	(9,400)	26,133	Pension Valuation Adjustment	24,379
892,793	844,977	871,821	900,133	Debt Servicing Costs	897,468
5,635,673	**5,627,606**	**5,940,051**	**6,162,285**		**6,418,122**
(333,357)	**(280,509)**	**(365,879)**	**(320,974)**		**(320,542)**
				Consolidation and Accounting Adjustments for Governmental Units	
---	2,147,768	36,000	55,200	Consolidated Fund Consolidation Adjustments	37,461
---	(1,327,579)	1,500	---	Health and Hospital Boards Operations	---
---	(773,897)	---	---	School Boards Operations	---
---	---	---	2,513	Special Purpose Funds	(958)
---	(65,272)	(1,605)	1,163	Other Organizations	688
---	**(18,980)**	**35,895**	**58,876**		**37,191**
				Net Income from Government Business Enterprises	
159,400	158,491	152,400	169,750	Nova Scotia Gaming Corporation (1)	160,900
166,800	166,752	181,715	170,110	Nova Scotia Liquor Corporation (1)	177,070
10,000	8,099	8,000	9,754	Other Enterprises	8,664
336,200	**333,342**	**342,115**	**349,614**		**346,634**
2,843	**33,853**	**12,131**	**87,516**	**Provincial Surplus before Unusual Items**	**63,283**

(1) - See Note 1, Page B8.

BUDGETARY SUMMARY - STATEMENT OF OPERATIONS

($ thousands)

Schedule 1
(continued)

ESTIMATE 2003-2004 (as restated)	ACTUAL 2003-2004 (as restated)	ESTIMATE 2004-2005 (as restated)	FORECAST 2004-2005		ESTIMATE 2005-2006
				Unusual Items	
---	8,734	---	---	Nova Scotia Resources Limited	---
---	8,734	---	---		---
2,843	42,587	12,131	87,516	**Provincial Surplus**	63,283

Note: The following table provides information as to the various components of the Debt Reduction Plan.

Components of the Debt Reduction Plan

---	---	4,000	4,000	Debt Retirement - Contingency	4,000
---	---	6,000	6,000	Debt Retirement - Fund	---
---	---	---	---	Offshore Offset Agreement	57,100
---	---	---	60,000	Strategic Infrastructure Investment	---
2,843	42,587	2,131	17,516	Statutory Requirements	2,183
2,843	**42,587**	**12,131**	**87,516**		**63,283**

FINANCIAL REPORTING AND ACCOUNTING POLICIES

The 2005-2006 Budget has been prepared following accounting policies consistent with those used to prepare the 2003-2004 Public Accounts. The Public Accounts were prepared in accordance with Canadian generally accepted accounting principles for the public sector, which for purposes of the Province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA or accounting standards or pronouncements.

Comparative Figures

Comparative figures for estimates are based on the accounting policies in effect at the time the Estimates were prepared. Net program estimates are not adjusted for subsequent accounting changes once the appropriations are finalized. The following is a summary of accounting changes made in the past two years which impact the comparability of figures.

Figures shown for 2003-2004 - Estimates not restated, Actual reflects the following:

- inclusion of retirement health benefits expense and liabilities for the first time, which decreased the actual Provincial Surplus by $33.2 million;
- inclusion of a teachers' salary accrual to measure the difference between the cost of teaching days worked versus teaching days paid as of March 31st, which reduced the actual Provincial Surplus by $6.1 million;
- removal of non-eligible employees from the Public Service Award plan liability, which increased the actual Provincial Surplus by $3.7 million;
- amendment of the Tangible Capital Asset thresholds and amortization rates as recommended by the recently completed policy review, which increased the actual Provincial Surplus by $23.8 million; and,
- consolidation of Special Purpose Funds for the first time, which had no impact on the actual Provincial Surplus.

Figures shown for 2003-2004 - Estimates restated, Actual restated for the following:

- in past years, net income from Nova Scotia Gaming Corporation and Nova Scotia Liquor Corporation were traditionally included in Ordinary Revenue; for purposes of these Estimates, the net income has been removed from the Estimates and Actual for Ordinary Revenue and the Actual for Consolidated Fund Consolidation Adjustments; this net income has been moved to Net Income from Government Business Enterprises; and,
- the Casino Win Tax, which is collected for the Province by the Nova Scotia Gaming Corporation has been segregated from the Nova Scotia Gaming Corporation revenue and continues to be reported under Consolidated Fund; Ordinary Revenue; Department of Finance.

Figures shown for 2004-2005 - Estimates not restated, Forecast reflects the following:

- measuring the assets for the long-term disability plan at a smoothed market related value, as opposed to a fair market value basis, which increased the forecasted Provincial Surplus by $1.5 million; the market related value measurement approach is consistent with how the Province measures the pension plan assets, which recognizes asset market value gains and losses on a straight-line basis over a five-year period.

Figures shown for 2004-2005 - Estimates restated, Forecast reflects the following:

- the Casino Win Tax, which is collected for the Province by the Nova Scotia Gaming Corporation and was included under Net Income from Government Business Enterprises in the 2004-2005 Estimates, has been moved to the Consolidated Fund, Ordinary Revenue, Department of Finance;
- the presentation of the debt retirement plan as a reduction of the Provincial Surplus has been adjusted; the elements of the debt reduction plan are now shown as an allocation of the Provincial Surplus for the purposes of debt retirement and therefore, the surplus is clearly not available for allocation to any program area; and,
- the Public Sector Accounting Board issued new accounting standards on liabilities and contingent liabilities in September 2004, which required immediate adoption; one of the requirements of the liability standard was to broaden the definition of a liability from a legal liability to include constructive and equitable obligations; to date, no events or transactions have been identified as requiring adjustment as a result of this new standard, however the review process is still ongoing; and, the potential impact to the forecasted Provincial Surplus, if any, is not yet determinable.

Future accounting changes for 2005-2006:

- inventory held for resale and consumption by the Consolidated Fund is expensed in the year received, as opposed to the year in which the inventory is consumed; the Consolidated Fund is planning to adopt a consumption measurement approach in fiscal 2005-2006; and, since this project is ongoing, the impact of implementing this approach to the budgeted Provincial Surplus has not yet been determined.

CONSOLIDATED FUND
ORDINARY REVENUE - SUMMARY
By Revenue Source
($ thousands)

Schedule 2

ESTIMATE 2003-2004 (as restated)	ACTUAL 2003-2004 (as restated)	ESTIMATE 2004-2005 (as restated)	FORECAST 2004-2005		ESTIMATE 2005-2006
				Provincial Sources	
1,317,200	1,350,071	1,465,695	1,456,648	Personal Income Tax	1,553,568
270,385	232,710	263,753	316,136	Corporate Income Tax	350,177
942,150	975,204	1,015,336	1,031,116	Harmonized Sales Tax	1,068,935
166,720	161,715	180,217	181,854	Tobacco Tax	177,567
254,197	249,900	255,872	249,816	Motive Fuel Taxes	256,895
69,390	60,473	64,898	68,998	Interest Revenues	72,413
73,704	77,546	80,381	86,652	Registry of Motor Vehicles	87,716
27,000	24,083	20,000	25,000	Royalties - Petroleum	30,000
205,219	239,233	245,275	294,890	Other Provincial Sources	239,333
---	145,504	---	(44,422)	Prior Years' Adjustments - Provincial Sources	---
3,325,965	**3,516,439**	**3,591,427**	**3,666,688**		**3,836,604**
				Federal Sources	
1,242,870	1,114,487	1,202,851	1,321,407	Equalization Payments	1,343,527
---	---	---	---	Offshore Oil and Gas Payments	57,100
701,151	686,853	703,998	---	Canada Health and Social Transfer	---
---	---	---	484,525	Canada Health Transfer	578,410
---	---	---	244,867	Canada Social Transfer	257,408
30,000	29,611	44,109	44,035	Health Reform Fund	---
---	---	---	18,348	Wait Times Reduction Fund	18,201
2,330	2,330	31,787	36,330	Other Federal Sources	6,330
---	(2,623)	---	25,111	Prior Years' Adjustments - Federal Sources	---
1,976,351	**1,830,658**	**1,982,745**	**2,174,623**		**2,260,976**
5,302,316	**5,347,097**	**5,574,172**	**5,841,311**		**6,097,580**

Note:

1) In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation were reclassified from Ordinary Revenue to Net Income from Government Business Enterprises in the 2004-2005 Estimates. The 2003-2004 Estimate and Actual been restated in the new format. The Casino Win Tax, which is collected for the Province by the Nova Scotia Gaming Corporation and was included under Net Income from Government Business Enterprises in the 2004-2005 Estimates, has been moved to the Consolidated Fund; Ordinary Revenue; Department of Finance.

CONSOLIDATED FUND
NET PROGRAM EXPENSES - SUMMARY
($ thousands)

Schedule 3

ESTIMATE 2003-2004	ACTUAL 2003-2004	ESTIMATE 2004-2005	FORECAST 2004-2005		ESTIMATE 2005-2006
40,118	42,573	40,796	49,429	Agriculture and Fisheries	44,113
666,414	659,410	694,145	704,957	Community Services	716,174
980,241	982,232	1,002,848	1,011,739	Education	1,074,377
205,805	212,804	206,531	227,140	Assistance to Universities	206,711
7,614	6,433	7,350	7,238	Energy	9,619
27,558	26,544	26,152	25,828	Environment and Labour	27,947
13,235	12,788	14,134	12,975	Finance	16,858
2,111,454	2,166,317	2,341,690	2,387,675	Health	2,559,740
99,417	94,517	99,626	97,890	Justice	107,847
59,160	56,814	59,322	59,952	Natural Resources	63,098
143,220	168,219	154,146	169,599	Public Service	183,455
93,161	90,396	92,352	101,624	Service Nova Scotia and Municipal Relations	96,384
40,805	39,508	41,055	51,055	Tourism, Culture and Heritage	42,383
246,654	229,888	241,009	250,961	Transportation and Public Works	263,954
21,624	8,722	56,474	77,957	Restructuring Costs	83,615
4,756,480	**4,797,165**	**5,077,630**	**5,236,019**		**5,496,275**

CONSOLIDATED FUND
DEBT SERVICING COSTS - SUMMARY
($ thousands)

Schedule 4

ESTIMATE 2003-2004	ACTUAL 2003-2004	ESTIMATE 2004-2005	FORECAST 2004-2005		ESTIMATE 2005-2006
				Debt Servicing Costs	
947,678	920,657	863,287	874,966	Interest on Long-Term Debt	859,306
30,038	21,480	44,641	44,901	General Interest	44,120
84,600	86,463	99,184	123,635	Interest on Pension, Retirement and Other Obligations	113,639
1,062,316	**1,028,600**	**1,007,112**	**1,043,502**	**Gross Debt Servicing Costs**	**1,017,065**
(169,523)	(183,623)	(135,291)	(143,369)	**Less: Sinking Fund Earnings**	(119,597)
892,793	**844,977**	**871,821**	**900,133**	**Net Debt Servicing Costs**	**897,468**

Note:

1) For further details on the underlying assumptions that support the Net Debt Servicing Costs projections, see Section D, Treasury Management Information, Schedule 16, Page D20 and Schedule 17, Page D21.

CONSOLIDATED FUND
STATUTORY CAPITAL ITEMS - SUMMARY
($ thousands)

Schedule 5

ACTUAL 2003-2004	ESTIMATE 2004-2005	FORECAST 2004-2005		ESTIMATE 2005-2006
			CAPITAL ADVANCES AND INVESTMENTS The following is given for information as to the proposed program.	
			Additional Advances and Investments (A)	
3,841	23,000	25,000	Fisheries Development Fund	25,000
4,731	18,000	25,630	Industrial Development Act	15,962
25,927	30,000	20,000	Nova Scotia Farm Loan Board	30,000
8,000	---	---	Nova Scotia First Fund	---
9,588	20,000	20,000	Nova Scotia Fund	20,000
25,833	42,000	32,629	Nova Scotia Housing Development Corporation	41,411
16,000	---	---	Miscellaneous	---
93,920	**133,000**	**123,259**		**132,373**
			Repayments (A)	
---	12,000	13,400	Fisheries Development Fund	14,000
5,457	3,487	3,560	Industrial Development Act	2,887
210	140	140	Municipal Loan and Building Fund Act	140
21,783	18,000	21,000	Nova Scotia Farm Loan Board	18,000
16,088	12,000	12,000	Nova Scotia Fund	12,000
14,575	18,241	19,875	Nova Scotia Housing Development Corporation	20,195
339	---	446	Miscellaneous	473
58,452	**63,868**	**70,421**		**67,695**
35,468	**69,132**	**52,838**	**Net Capital Advances and Investments**	**64,678**

(A) - Capital Advances and Investments for which no Vote is required under the Appropriations Act. The Spending Authority is contained in the respective Statutes. Borrowing provided for under the Appropriations Act.

NOVA SCOTIA

Financial Statistics

To the Budget Address 2005–2006

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

Schedule 6

	2001-2002 (as restated)	*2002-2003* (as restated)	*2003-2004* (as restated)	***FORECAST*** *2004-2005*	***ESTIMATE*** *2005-2006*
REVENUE BY SOURCE *($ thousands)*					
Provincial Sources (1)					
Personal Income Tax	1,274,481	1,353,675	1,350,071	1,456,648	1,553,568
Corporate Income Tax	194,439	204,950	232,710	316,136	350,177
Sales Tax	852,797	905,120	975,204	1,031,116	1,068,935
Tobacco Tax	105,751	145,425	161,715	181,854	177,567
Motive Fuel Taxes	207,951	246,283	249,900	249,816	256,895
Interest Revenues	66,724	60,675	60,473	68,998	72,413
Registry of Motor Vehicles	65,051	75,933	77,546	86,652	87,716
Royalties - Petroleum	17,329	11,115	24,083	25,000	30,000
Other Provincial Sources	165,048	195,865	239,233	294,890	239,333
Prior Years' Adjustments - Provincial Sources	83,282	(23,833)	145,504	(44,422)	---
Nova Scotia Gaming Corporation	159,372	172,982	158,491	169,750	160,900
Nova Scotia Liquor Corporation	143,858	157,866	166,752	170,110	177,070
Other Government Business Enterprises	5,668	7,551	8,099	9,754	8,664
Federal Sources					
Equalization Payments	1,321,100	1,125,088	1,114,487	1,321,407	1,343,527
Offshore Oil and Gas Payments	---	---	---	---	57,100
Canada Health and Social Transfer	553,375	605,117	686,853	---	---
Canada Health Transfer	---	---	---	484,525	578,410
Canada Social Transfer	---	---	---	244,867	257,408
Health Reform Fund	---	---	29,611	44,035	---
Wait Times Reduction Fund	---	---	---	18,348	18,201
Other Federal Sources	2,306	2,299	2,330	36,330	6,330
Prior Years' Adjustments - Federal Sources	11,893	36,924	(2,623)	25,111	---
Total Revenues	**5,230,425**	**5,283,035**	**5,680,439**	**6,190,925**	**6,444,214**

Note:

1) In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation were reclassified from Ordinary Revenue to Net Income from Government Business Enterprises in the 2004-2005 Estimates. The 2003-2004 Estimate and Actual have been restated to reflect this change.

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

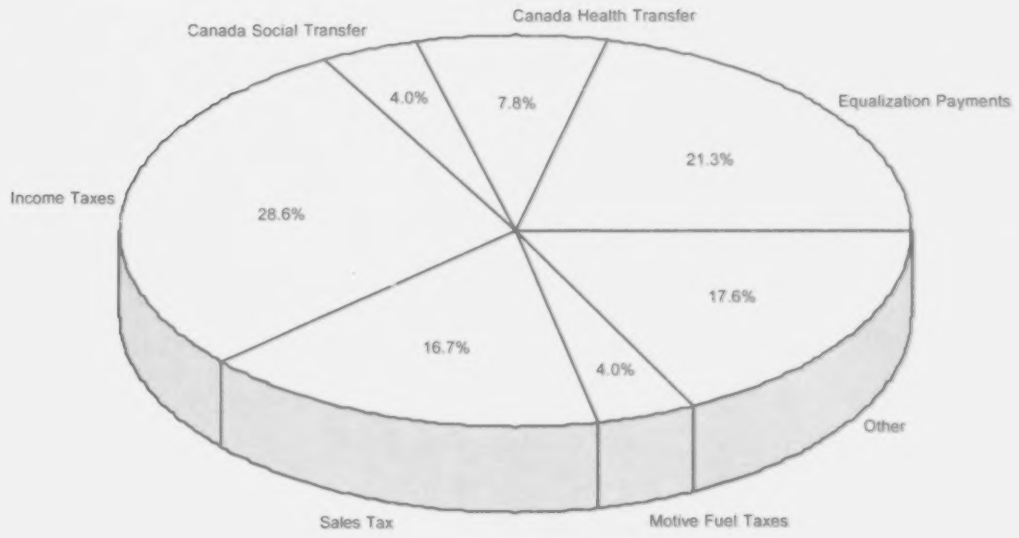
Schedule 6
(continued)

	2001-2002 (as restated)	2002-2003 (as restated)	2003-2004 (as restated)	FORECAST 2004-2005	ESTIMATE 2005-2006
REVENUE BY SOURCE *(as a percentage of Total Revenues)*					
Provincial Sources					
Personal Income Tax	24.4%	25.6%	23.8%	23.5%	24.1%
Corporate Income Tax	3.7%	3.9%	4.1%	5.1%	5.4%
Sales Tax	16.3%	17.1%	17.2%	16.7%	16.6%
Tobacco Tax	2.0%	2.8%	2.8%	2.9%	2.8%
Motive Fuel Taxes	4.0%	4.7%	4.4%	4.0%	4.0%
Interest Revenues	1.3%	1.1%	1.1%	1.1%	1.1%
Registry of Motor Vehicles	1.2%	1.4%	1.4%	1.4%	1.4%
Royalties - Petroleum	0.3%	0.2%	0.4%	0.4%	0.5%
Other Provincial Sources	3.2%	3.7%	4.2%	4.8%	3.7%
Prior Years' Adjustments - Provincial Sources	1.6%	-0.4%	2.6%	-0.7%	---
Nova Scotia Gaming Corporation	3.0%	3.3%	2.8%	2.7%	2.5%
Nova Scotia Liquor Corporation	2.8%	3.0%	2.9%	2.8%	2.7%
Other Government Business Enterprises	0.1%	0.1%	0.1%	0.2%	0.1%
Total - Provincial Sources	**63.9%**	**66.5%**	**67.8%**	**64.9%**	**64.9%**
Federal Sources					
Equalization Payments	25.3%	21.3%	19.6%	21.3%	20.8%
Offshore Oil and Gas Payments	---	---	---	---	0.9%
Canada Health and Social Transfer	10.6%	11.5%	12.1%	---	---
Canada Health Transfer	---	---	---	7.8%	9.0%
Canada Social Transfer	---	---	---	4.0%	4.0%
Health Reform Fund	---	---	0.5%	0.7%	---
Wait Times Reduction Fund	---	---	---	0.3%	0.3%
Other Federal Sources	---	---	---	0.6%	0.1%
Prior Years' Adjustments - Federal Sources	0.2%	0.7%	---	0.4%	---
Total - Federal Sources	**36.1%**	**33.5%**	**32.2%**	**35.1%**	**35.1%**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

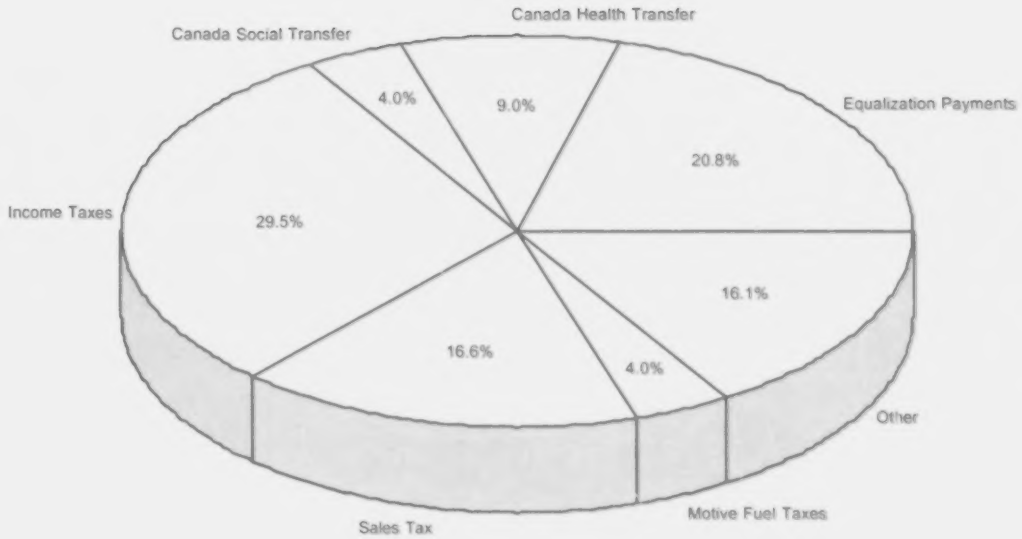
REVENUES BY SOURCE

Chart 1

2004-2005 FORECAST



2005-2006 ESTIMATE



HISTORICAL ANALYSIS OF TOTAL NET EXPENSES BY FUNCTION

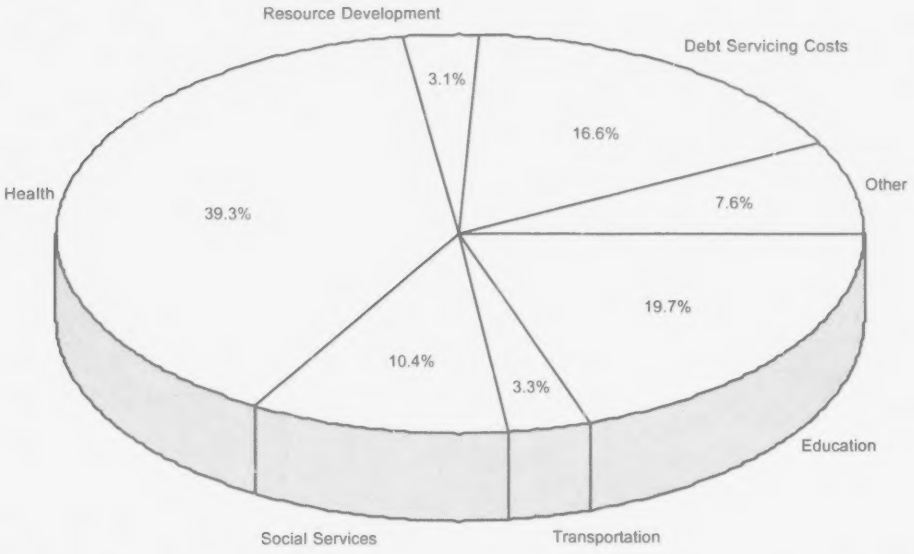
Schedule 7

	2001-2002	*2002-2003*	*2003-2004*	*FORECAST 2004-2005*	*ESTIMATE 2005-2006*
FUNCTION *($ thousands)*					
General Government	177,095	140,587	132,161	186,179	211,478
Public Protection	169,135	169,737	187,215	186,021	189,643
Transportation	195,132	210,708	191,100	204,493	223,894
Resource Development	173,579	152,546	161,946	196,613	180,052
Health	1,937,641	2,033,437	2,227,340	2,465,171	2,635,134
Social Services	603,597	630,629	612,775	658,462	673,782
Education	1,118,422	1,141,838	1,190,881	1,237,709	1,284,424
Culture and Recreation	43,720	40,538	48,117	49,612	48,007
Municipal Affairs	43,261	50,444	45,630	51,759	49,861
Total Net Program Expenses	**4,461,582**	**4,570,464**	**4,797,165**	**5,236,019**	**5,496,275**
Debt Servicing Costs	1,160,647	1,045,664	1,028,600	1,043,502	1,017,065
Total Net Expenses	**5,622,229**	**5,616,128**	**5,825,765**	**6,279,521**	**6,513,340**
FUNCTION *(as a percentage of Total Net Expenses)*					
General Government	3.1%	2.5%	2.3%	3.0%	3.2%
Public Protection	3.0%	3.0%	3.2%	3.0%	2.9%
Transportation	3.5%	3.8%	3.3%	3.3%	3.4%
Resource Development	3.1%	2.7%	2.8%	3.1%	2.8%
Health	34.5%	36.2%	38.2%	39.3%	40.5%
Social Services	10.7%	11.3%	10.5%	10.4%	10.4%
Education	19.9%	20.3%	20.4%	19.7%	19.7%
Culture and Recreation	0.8%	0.7%	0.8%	0.8%	0.7%
Municipal Affairs	0.8%	0.9%	0.8%	0.8%	0.8%
Total Net Program Expenses	**79.4%**	**81.4%**	**82.3%**	**83.4%**	**84.4%**
Debt Servicing Costs	20.6%	18.6%	17.7%	16.6%	15.6%
Total Net Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

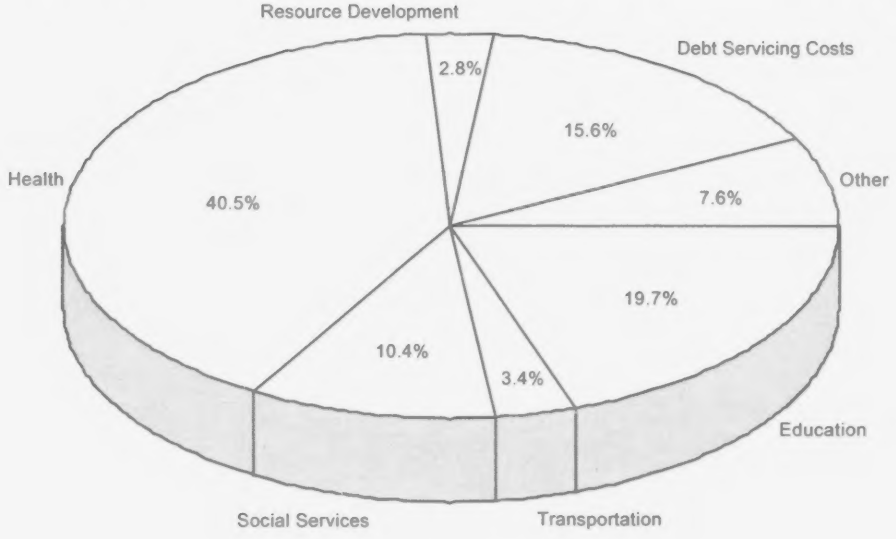
TOTAL NET EXPENSES BY FUNCTION

Chart 2

2004-2005 FORECAST



2005-2006 ESTIMATE



SUMMARY OF REVENUES AND EXPENSES BY SOURCE AND FUNCTION

Schedule 8

($ thousands)

ESTIMATE 2004-2005 (as restated)	FORECAST 2004-2005	Increase (Decrease) from ESTIMATE 2004-2005		ESTIMATE 2005-2006
			Consolidated Fund	
			Revenues	
			Ordinary Revenues by Source	
			Provincial Sources	
1,465,695	1,456,648	(9,047)	Personal Income Tax	1,553,568
263,753	316,136	52,383	Corporate Income Tax	350,177
1,015,336	1,031,116	15,780	Harmonized Sales Tax	1,068,935
180,217	181,854	1,637	Tobacco Tax	177,567
255,872	249,816	(6,056)	Motive Fuel Taxes	256,895
64,898	68,998	4,100	Interest Revenues	72,413
80,381	86,652	6,271	Registry of Motor Vehicles	87,716
20,000	25,000	5,000	Royalties - Petroleum	30,000
245,275	294,890	49,615	Other Provincial Sources	239,333
---	(44,422)	(44,422)	Prior Years' Adjustments - Provincial Sources	---
			Federal Sources	
1,202,851	1,321,407	118,556	Equalization Payments	1,343,527
---	---	---	Offshore Oil and Gas Payments	57,100
703,998	---	(703,998)	Canada Health and Social Transfer	---
---	484,525	484,525	Canada Health Transfer	578,410
---	244,867	244,867	Canada Social Transfer	257,408
44,109	44,035	(74)	Health Reform Fund	---
---	18,348	18,348	Wait Times Reduction Fund	18,201
31,787	36,330	4,543	Other Federal Sources	6,330
---	25,111	25,111	Prior Years' Adjustments - Federal Sources	---
5,574,172	**5,841,311**	**267,139**		**6,097,580**

SUMMARY OF REVENUES AND EXPENSES BY SOURCE AND FUNCTION

($ thousands)

Schedule 8 (continued)

ESTIMATE 2004-2005 (as restated)	FORECAST 2004-2005	Increase (Decrease) from ESTIMATE 2004-2005		ESTIMATE 2005-2006
			Net Expenses by Function	
169,164	186,179	17,015	General Government	211,478
177,446	186,021	8,575	Public Protection	189,643
203,339	204,493	1,154	Transportation	223,894
163,330	196,613	33,283	Resource Development	180,052
2,414,216	2,465,171	50,955	Health	2,635,134
645,683	658,462	12,779	Social Services	673,782
1,209,061	1,237,709	28,648	Education	1,284,424
44,728	49,612	4,884	Culture and Recreation	48,007
50,663	51,759	1,096	Municipal Affairs	49,861
5,077,630	**5,236,019**	**158,389**	**Total - Net Program Expenses**	**5,496,275**
(9,400)	**26,133**	**35,533**	**Pension Valuation Adjustment**	**24,379**
871,821	**900,133**	**28,312**	**Net Debt Servicing Costs**	**897,468**
5,940,051	**6,162,285**	**222,234**	**Total - Net Expenses**	**6,418,122**
(365,879)	**(320,974)**	**(44,905)**		**(320,542)**
35,895	**58,876**	**22,981**	**Consolidation and Accounting Adjustments for Governmental Units**	**37,191**
342,115	**349,614**	**7,499**	**Net Income from Government Business Enterprises**	**346,634**
12,131	**87,516**	**75,385**	**Provincial Surplus**	**63,283**

			Components of the Debt Reduction Plan	
4,000	4,000	---	Debt Retirement - Contingency	4,000
6,000	6,000	---	Debt Retirement - Fund	—
---	---	---	Offshore Offset Agreement	57,100
---	60,000	60,000	Strategic Infrastructure Investment	—
2,131	17,516	15,385	Statutory Requirements	2,183
12,131	**87,516**	**75,385**		**63,283**

Note: See Pages B6 and B7 for information on the Financial Reporting and Accounting Policies used in this budget.

NOVA SCOTIA

Fiscal Plan

To the Budget Address 2005–2006

FISCAL PLAN 2005-2006 to 2008-2009

Schedule 9

($ millions)

	ESTIMATE 2004-2005 (as restated)	*FORECAST* 2004-2005	*ESTIMATE* 2005-2006	*ESTIMATE* 2006-2007	*ESTIMATE* 2007-2008	*ESTIMATE* 2008-2009
Consolidated Fund						
Revenues	5,574.2	5,841.3	6,097.6	6,374.8	6,744.4	7,024.4
Net Expenses	5,940.1	6,162.3	6,418.1	6,650.8	6,938.0	7,204.0
	(365.9)	(321.0)	(320.5)	(276.0)	(193.6)	(179.6)
Consolidation Adjustments	35.9	58.9	37.2	27.0	27.0	27.0
Net Income Government Business Enterprises	342.1	349.6	346.6	342.0	355.6	359.6
Provincial Surplus	12.1	87.5	63.3	93.0	189.0	207.0

Note: See Pages B6 and B7 for information on the Financial Reporting and Accounting Policies for the accounting policies that have been used in the preparation of this Fiscal Plan.

The Province of Nova Scotia is tabling its fourth consecutive balanced budget in fiscal 2005-2006, estimating a surplus of $63.3 million.

The budget increases the province's investments in education, health care, and health promotion. There are also measures to promote Nova Scotia's long-term economic development. Capital spending for fiscal 2005-2006 will increase by $30.0 million to $280.0 million, to cover additional spending on highways. Capital spending for the district health authorities will remain the same at $38.0 million.

With economic growth forecast at 2.1 per cent, provincial source revenues such as income tax and HST are expected to increase overall by $125.5 million over the 2004-2005 forecast to $3,836.6 million in fiscal 2005-2006. Federal transfers will increase by $111.5 million from the fiscal 2004-2005 forecast levels, as a result of additional funds received for equalization and health care through agreements made at First Ministers' Meetings in the fall of 2004.

There is also $57.1 million in revenue attributed to the Offshore Agreement signed between the Province and the Government of Canada on February 14, 2005. The agreement will result in a lump sum payment of $830.0 million, which is expected sometime in fiscal 2005-2006. Provincial legislation will be amended to ensure the funds are applied to the Province's debt and accounted for according to GAAP over the eight-year life of the agreement.

The Province's net direct debt to GDP continues its downward trend in fiscal 2005-2006, falling to 39.6 per cent compared to 46.8 per cent in fiscal 2001-2002. Foreign currency exposure also continues to drop, and is now 16.2 per cent. This compares to 51.0 per cent in 1999.

NOVA SCOTIA

Economic Indicators

To the Budget Address 2005–2006

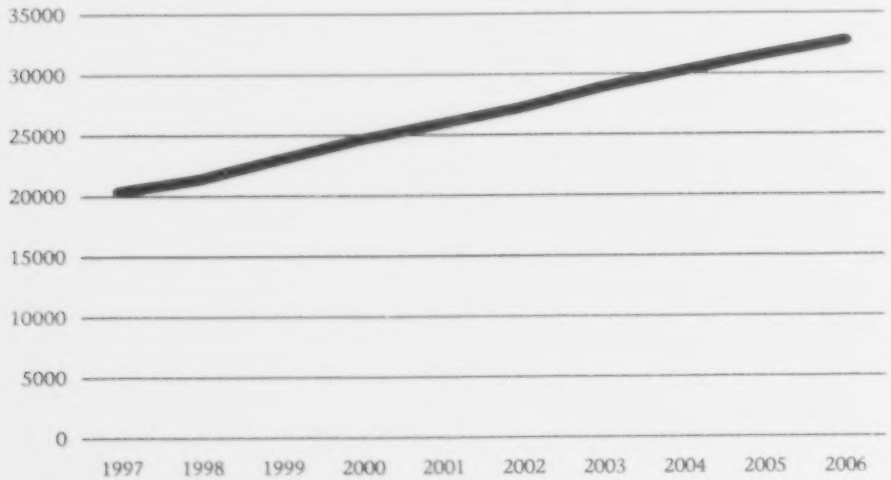
NOVA SCOTIA

Schedule 10
Nominal Gross Domestic Product at Market Prices
($ Millions)

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1997	20,368	4.4	882,733	5.5
1998	21,401	5.1	914,973	3.7
1999	23,059	7.7	982,441	7.4
2000	24,658	6.9	1,076,577	9.6
2001	25,942	5.2	1,108,200	2.9
2002	27,247	5.0	1,157,968	4.5
2003	28,912	6.1	1,218,772	5.3
2004	30,232	4.6 p	1,293,289	6.1
2005	31,518	4.3 p	1,354,272	4.7 p
2006	32,689	3.7 p	1,415,223	4.5 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Nominal Gross Domestic Product at Market Prices
(In $Millions)



(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

NOVA SCOTIA

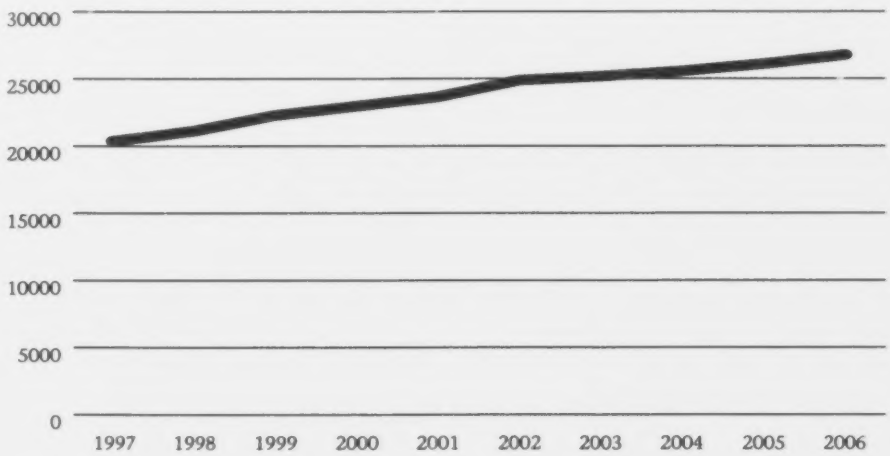
Schedule 11
Real Gross Domestic at Product Market Prices
(Chained 1997 $ Millions)

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1997	20,368	4.3	882,733	4.2
1998	21,127	3.7	918,910	4.1
1999	22,285	5.5	969,750	5.5
2000	22,970	3.1	1,020,488	5.2
2001	23,641	2.9	1,038,845	1.8
2002	24,874	5.2	1,074,621	3.4
2003	25,180	1.2	1,096,359	2.0
2004	25,549	1.5 p	1,126,625	2.8
2005	26,090	2.1 p	1,160,213	3.0 p
2006	26,765	2.6 p	1,192,163	2.8 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The Chained 1997$ millions is the Fisher Volume Index formula (1997 = 100) used to project Gross Domestic Product in constant dollars.

Real Gross Domestic Product at Market Prices
(In $Millions)



(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

NOVA SCOTIA

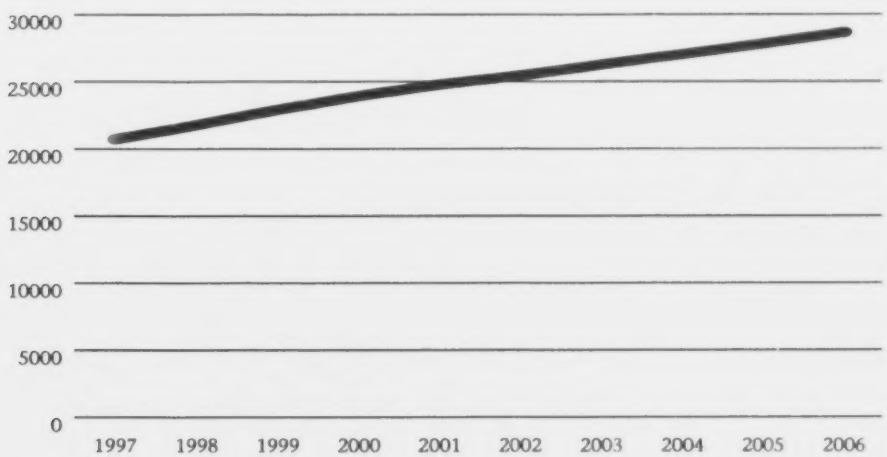
Schedule 12
Personal Income Per Capita
(dollars)

Year	Nova Scotia (1)	% Change	Canada (1)	% Change
1997	20,722	3.9	23,924	3.1
1998	21,786	5.1	24,814	3.7
1999	22,922	5.2	25,755	3.8
2000	23,933	4.4	27,384	6.3
2001	24,791	3.6	28,196	3.0
2002	25,447	2.6	28,620	1.5
2003	26,269	3.2	29,204	2.0
2004	27,030	2.9 p	30,125	3.2
2005	27,813	2.9 p	31,084	3.2 p
2006	28,658	3.0 p	32,245	3.7 p

1 Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-213-XPB (Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

p Preliminary Projections; Source: Nova Scotia Department of Finance

Personal Income Per Capita
(Dollars)



(Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-213-XPB)

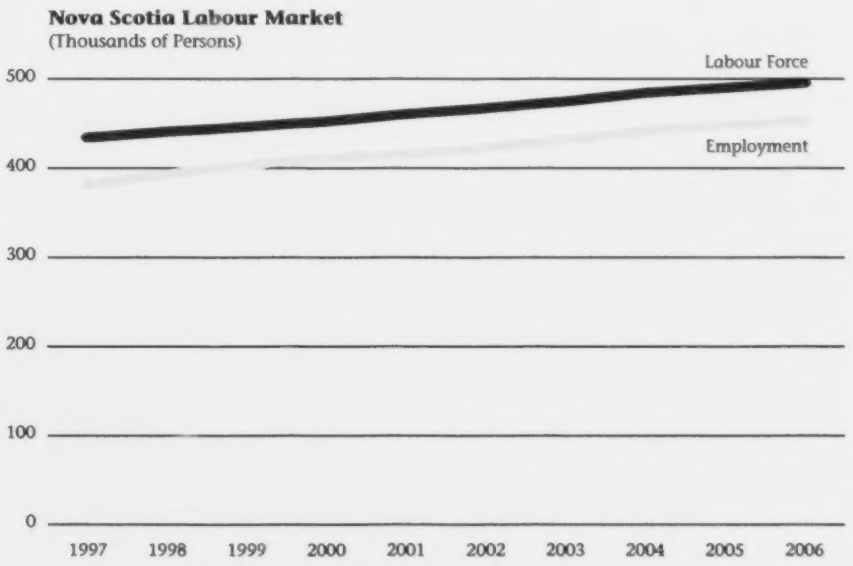
NOVA SCOTIA

Schedule 13
Nova Scotia Labour Market
(thousands of persons)

Year	Labour Force (1)	% Change	Employment (1)	% Change
1997	434.3	1.2	381.0	1.4
1998	440.8	1.5	393.8	3.4
1999	446.3	1.2	403.2	2.4
2000	452.4	1.4	411.1	2.0
2001	460.4	1.8	415.4	1.0
2002	467.2	1.5	422.4	1.7
2003	474.7	1.6	431.3	2.1
2004	484.3	2.0	441.6	2.4
2005	490.1	1.2 p	448.2	1.5 p
2006	495.5	1.1 p	452.7	1.0 p

1 Source: Statistics Canada, 2004 Labour Force Historical Review, 71F0004XCB, February 2005

p Preliminary Projections; Source: Nova Scotia Department of Finance



(Source: Statistics Canada, 2004 Labour Force Historical Review, 71F0004XCB, February 2005)

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Schedule 14
Unemployment
(thousands of persons)

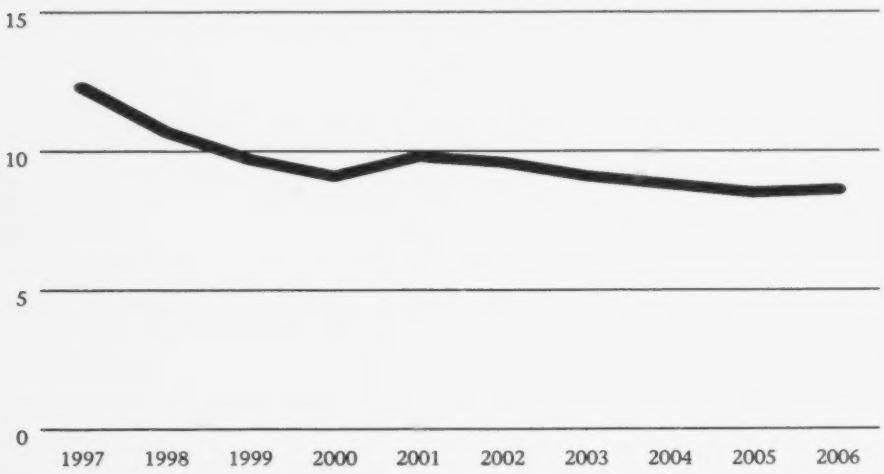
Year	Nova Scotia (1) Unemployed	Nova Scotia (1) Unemployment Rate (%)	Canada (1) Unemployed	Canada (1) Unemployment Rate (%)
1997	53.3	12.3	1,382.0	9.2
1998	47.0	10.7	1,277.6	8.4
1999	43.1	9.7	1,185.2	7.6
2000	41.3	9.1	1,083.5	6.8
2001	45.0	9.8	1,164.1	7.2
2002	44.8	9.6	1,272.2	7.7
2003	43.4	9.1	1,288.9	7.6
2004	42.7	8.8	1,233.7	7.2
2005	41.9	8.5 p	1,252.0	7.2 p
2006	42.8	8.6 p	1,206.0	6.8 p

1 Source: Statistics Canada , 2004 Labour Force Historical Review, 71F0004XCB, February 2005

p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The unemployment statistics shown in this table are annual averages of the monthly indices.

Unemployment Rate in Nova Scotia
(per cent)



NOVA SCOTIA

Treasury Management Information

To the Budget Address 2005–2006

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Overview of Treasury Management

The Department of Finance, Liability Management and Treasury Services Division, serves as the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds (sinking funds, Public Debt Management Fund, Debt Retirement Fund, pension funds, and miscellaneous trust funds).

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which stood at $13.2 billion as of March 31, 2005. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Municipal Finance Corporation debt. These assets total $3.0 billion, resulting in a net debt of $10.2 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the Public Debt Management Fund (PDMF), and where efficient to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The fiscal context for debt management is provided in the Budget Address Fiscal Plan. The 2005–2006 budget shows that the government intends to have balanced budgets in the following four years. The Provincial Finance Act requires that the government table balanced budgets; and in the event of a deficit the government must take certain remedial actions.

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In the upcoming year, the province will see a significant decline in debt outstanding in financial markets. On January 28, 2005, the Province of Nova Scotia reached an agreement in principle with the Government of Canada, subject to new federal legislation, that ensures that the province will be the primary beneficiary of its offshore resource revenues. Under the Offshore Offset Agreement, Nova Scotia will receive 100 per cent protection from equalization "clawbacks" for eight years, as long as the province receives equalization entitlements. The agreement, to 2012, is worth an estimated $1.1 billion to Nova Scotia, and the province will receive an up-front payment of $830 million. In addition, this agreement provides for a further eight-year extension as long as Nova Scotia still qualifies for equalization and per-capita net debt does not become lower than that of at least four other provinces.

The $830 million to be paid under the Offshore Offset Agreement will be applied to the net debt as soon as funds are received in the coming months. These monies will pay down existing provincial debt outstanding in financial markets and will reduce debt-servicing costs.

The receipt of the above $830 million does not have an immediate impact on net direct debt, the more commonly used measure of provincial debt. The budget and Public Accounts, collectively referred to as financial statements or "books" of the province, are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations, and in this context the "borrowing requirements" are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances, some contributions to pension plans, and net acquisition of tangible capital assets. Under the full accrual basis of accounting, revenues and expenditures are recorded when they are incurred, regardless of when the cash flows occur. The Offshore Offset Agreement up-front payment

of $830 million will be recorded as deferred revenue and will be recorded in the fiscal year in which the revenue is "earned." This concept is discussed further in the Debt Reduction Plan.

In recent years, even with budgetary surpluses being recorded, the net direct debt of the province has increased marginally to $12.38 billion at March 31, 2005. Additions to the net debt of the province have continued under generally accepted accounting principles (GAAP) due to the treatment of the acquisition of tangible capital assets. In 2004–2005, government set aside an additional $60 million for debt reduction to provide flexibility in capital infrastructure investments in future years. Under that Strategic Infrastructure Investment program, an allocation of $60 million to the 2004–2005 annual surplus will provide for an increase in capital spending in 2005–2006 and 2006–2007 without negatively affecting the Debt Reduction Plan.

The province's ratio of net direct debt to gross domestic product at market prices continues to decline, and it is forecast to stand at 41.0 per cent at March 31, 2005, down from 42.7 per cent a year earlier.

The province continues to communicate its improving fiscal position both to investors and to bond-rating agencies. In 2003 and 2004 the province's credit rating was upgraded by all three major bond-rating agencies. The most recent upgrade in September 2004 by Moody's Investors Services cited long-term improvements in the province's debt indicators, economic gains of recent years, and the government's commitment to balanced budgets and achieving a reduction in debt. In its rating of the province in August 2004, Standard & Poor's said the province's risk and debt management programs are among the most conservative among its domestic peers.

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Summary of Provincial Ratings by Agency

Province	Moody's	S&P	DBRS
Alberta	Aaa	AAA	AAA
British Colombia	Aa1	AA	AA
Ontario	Aa2	AA	AA
Manitoba	Aa2	AA-	A (high)
New Brunswick	Aa3	AA-	A (high)
Saskatchewan	Aa3	AA-	A (high)
Quebec	A1	A+	A
Nova Scotia	A2	A	A (low)
PEI	A2	A	A (low)
Newfoundland	A3	A-	BBB

The Province of Nova Scotia provides disclosure of treasury management activities in this document, and further information can be found in the province's Securities and Exchange Commission (SEC) filings. The province files a Form 18-K with the SEC, which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the Department of Finance website. In the upcoming year, the Department of Finance will continue to develop further financial information on its website.

Structure of the Debt Portfolio

The structure of the debt portfolio has been evolving over the past number of years with the intent of protecting the province's fiscal situation from unanticipated increases in interest rates or deterioration in the Canadian dollar and to manage the province's refinancing requirements for the long term. The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia has enacted balanced budget legislation and has, to date, posted four consecutive balanced budgets. This success does not, however, mean that the province does not need to borrow funds on an ongoing basis to refinance existing debt and for non-budgetary purposes. The management of these debt maturities is enhanced by the use of discretionary sinking fund reserves held by the province. These discretionary funds represent an integral component of the liability management strategy of the province.

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Chart 3: Consolidated Fund Debt Portfolio—Issuance Profile, 2004–2005
(In $ Millions)

In fiscal 2004–2005, the province borrowed $536 million compared to budget borrowing requirements of $340 million. This increase in borrowing was due in part to the department's funding of various Crown corporation activities, in particular the funding of $61 million for the Nova Scotia Municipal Finance Corporation. A further increase of $115 million in borrowings was used to refinance retail structured debt issues called during the fiscal year. The province maintains a limited portfolio of these callable retail structured issues as part of a broader program to provide access to diverse funding sources.

The province met its borrowing requirements in 2004–2005 in the domestic financial market through the following debt issues: a 10-year domestic public issue of $200 million; seven domestic retail structured notes totaling $250 million issued under the domestic Medium Term Note program, and the rollover of a $86-million Canada Pension Plan issue. The latter issue is part of the Canada Pension Plan's assets that are

invested in the provincial bond market and are transacted at market rates of interest.

The province has established a diversity of borrowing sources, both domestically and in foreign markets, as this is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues. The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets.

The Province also maintains a Euro Medium Term Note (EMTN) program to provide more timely and efficient access to European institutional and retail markets. This latter program also provides the province with the opportunity to access broader global markets. In prior years, the province had filed documentation with regulatory authorities in Japan, as the Province of Nova Scotia has debt outstanding in that market. With the maturity of the last Nova Scotia yen issue in Japan in August 2004, this documentation was allowed to lapse, and the province has no plans to refile. The province may still borrow in Japanese yen and other Asian markets through its existing EMTN documentation. In fiscal 2004–2005, the province did not access international capital markets.

Although the province does maintain documentation to borrow in foreign markets, the domestic Canadian debt market continues to be the primary source of funding for the province's borrowing programs. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial Consolidated Fund on a short-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the Consolidated Fund with a market cost of funds. At March 31, 2005, the Nova Scotia Government Fund, the

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Workers' Compensation Board of Nova Scotia, Nova Scotia Business Inc., the Nova Scotia Municipal Finance Corporation, and the Nova Scotia Crop and Livestock Insurance Commission, invested a total of $53.4 million with the Consolidated Fund.

At March 31, 2005, the Consolidated Fund also held $107 million in monies on deposit from the Halifax Regional Municipality to be used for the purposes of the Halifax Harbour Solutions Project. The municipality, as required to meet the project's cash requirements, will draw down these monies for that project. The final draw of these monies is expected to occur in August 2007.

The projected borrowing program for fiscal 2005–2006 is about $340 million. This figure is contingent on the receipt of the $830 million in funds expected from the Offshore Offset Agreement with the federal government. Schedule 13 shows the projected borrowing program for 2005–2006 to 2008–2009. The borrowing program starts with the provincial budgetary surplus that reduces requirements. As the provincial budget is produced on a fully GAAP-compliant basis, there are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the Consolidated Fund. In 2005–2006, the two major adjustments are (1) the transfer of $142 million to the Teachers' Pension Fund in accordance with the agreement reached with the Nova Scotia Teachers' Union in early March 2005 and (2) the receipt of $830 million under the Offshore Offset Agreement. Each year there are requirements for capital advances to Crown agencies and the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits.

2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency denominated fixed-coupon marketable bonds, Canada Pension Plan non-marketable bonds, floating interest rate notes, retail structured notes, capital leases, a cash obligation to the Teachers' Pension Fund, and short-term promissory notes. Chart 5, titled Consolidated Fund Debt Portfolio—Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the province has two sterling issues (GBP) outstanding in 2011 and 2019. Retail structures that are callable debt are shown in the year of final maturity, as the call dates are somewhat uncertain. There are two callable public debt issues totaling $300 million, and those are shown to be called in 2005–2006 given current market levels.

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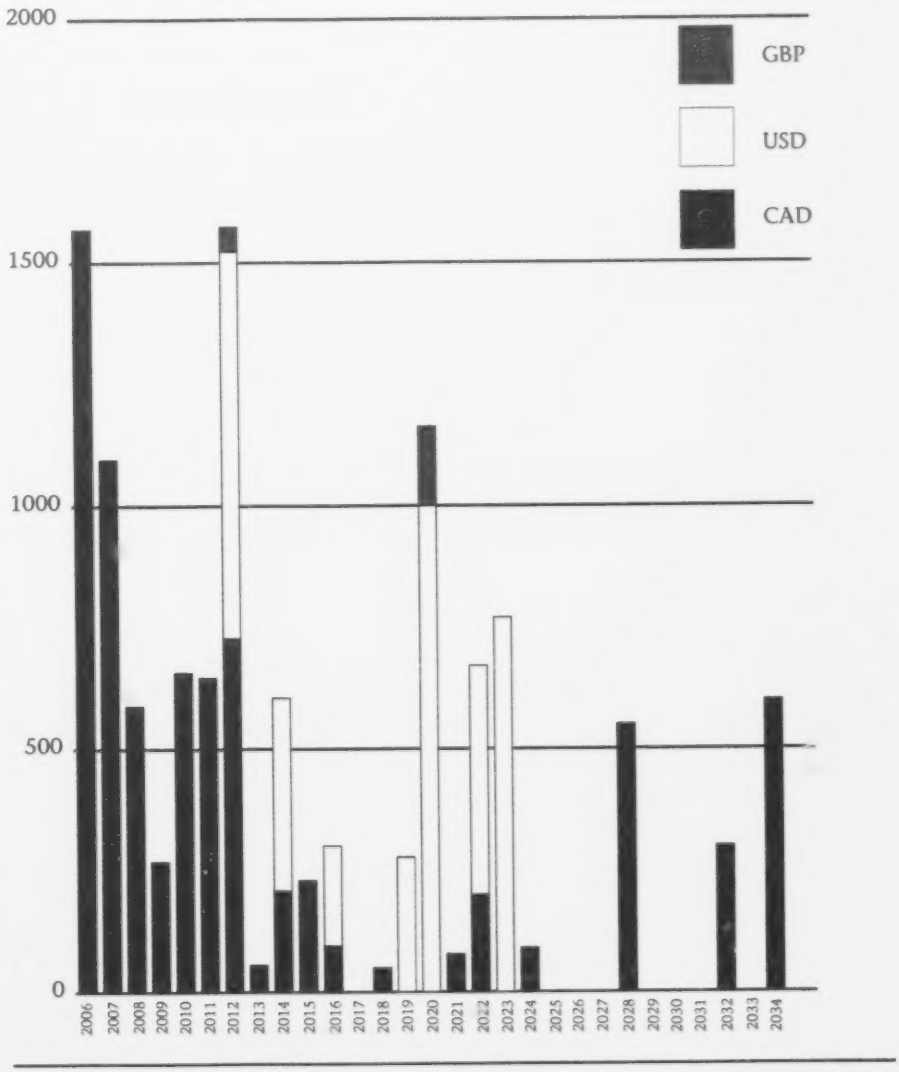
Chart 4: Consolidated Debt Portfolio Maturity Schedule
(In $Millions)



The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds—primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). Those funds are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year. This approach is considered conservative debt management.

Debt maturities over the next two years are $1.6 billion in fiscal 2005–2006 and $1.1 billion in fiscal 2006–2007 (see Schedule 13). The debt maturities in 2005–2006 are shown in the borrowing requirement to be offset by drawing down $205 million in mandatory sinking funds held to retire this debt and a further $645 million drawdown in discretionary sinking funds. In anticipation of the receipt of the Offshore Offset Agreement monies, the province did not draw $325 million of its discretionary sinking funds in 2004–2005, and these funds remain at the disposal of the province to reduce borrowing requirements in 2005–2006 and 2006–2007. By provincial legislation, the sinking funds and Public Debt Management Fund can be used only to retire debt issues.

There are sizable maturities in US dollars in the years 2013 to 2022. Each of these debt issues, by bond covenant, is required to be fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary to refinance these issues in the year of maturity.

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3. Foreign Currency Exposure

The Canadian dollar denominated debt represented the largest share of the gross financial market debt portfolio at 83.8 per cent based on the face value in Canadian dollars (foreign currency exposure of 16.2 per cent), up from 83.1 per cent a year earlier. The reduction in foreign currency exposure during fiscal 2004-2005 was primarily due to a general strengthening in the Canadian dollar versus the US dollar. As this figure is calculated as a percentage of the gross financial market debt portfolio, the size of the portfolio is an aspect of the ratio. The drawdown of the Public Debt Management Fund, which has no impact on the level of net debt, reduced the level of gross financial market debt by $500 million—thereby increasing the foreign currency exposure by 0.6 percentage points. In the future, with less gross financial market debt outstanding, the proportional impact of the current foreign currency denominated debt will, all else being equal, rise.

The Province of Nova Scotia's remaining foreign currency debt is entirely in US dollars or hedged to USD. As noted above, the province established US dollar sinking funds for all USD debt issued in the late 1980's and early 1990's. As such, there are significant US dollar assets to offset gross foreign currency exposure—and those assets are primarily Nova Scotia US pay bonds. Thus, on a net basis, at March 31, 2005, the province's foreign currency exposure was 11.9 per cent. The Nova Scotia Provincial Finance Act requires that, until the province's gross foreign currency exposure is less than 20 per cent, no financial transactions or series of financial transactions be completed that increase the foreign currency exposure.

In fiscal 2004–2005, the value of the Canadian dollar improved against the US dollar, on a year-over-year basis, to $1.2096 CAD/USD from $1.3105 a year earlier, to the net benefit of the province.

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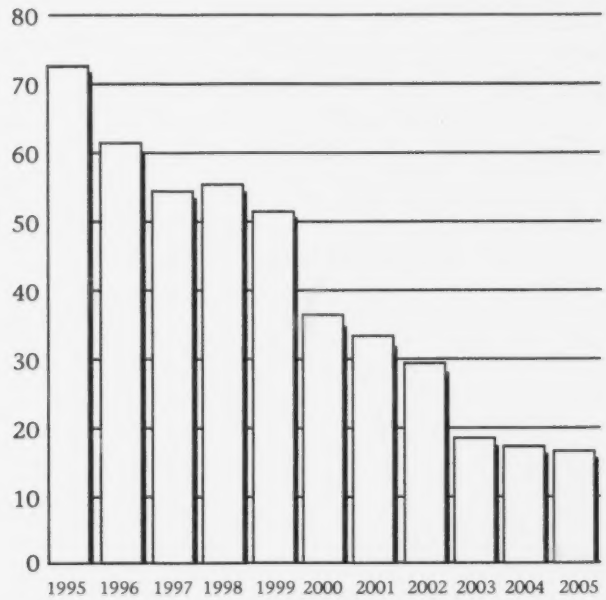
4. Interest Rate Mix

The debt portfolio's exposure to floating interest rates rose slightly over the past year to 21.7 per cent at March 31, 2005. The province includes fixed interest rate term debt maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. The province is able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is near the low end of the province's floating rate exposure policy, which has a floating rate exposure in the range of 15 to 35 per cent of debt outstanding. With 78.3 per cent of the total principal in fixed interest rate form, the province has some protection from unexpected increases in interest rates, yet derives a benefit from the lower expected cost of short-term debt.

Chart 5: Foreign Currency Exposure
1999 to 2005
(per cent)



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5. Derivative Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific benchmark—for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed-upon reference point. Derivatives allow the Province of Nova Scotia to identify, isolate, and manage separately the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. These transactions can be more effective and at a lower cost than would be possible in the cash market.

At March 31, 2005, the province's use of derivatives was for three purposes: (1) the hedging of foreign currency debt issues to Canadian or US dollars, (2) interest rate swaps to hedge certain aspects of retail structured notes, and (3) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

The province is currently party to approximately $3.55 billion notional face value of derivative transactions. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. According to this policy, all counterparties are rated equal to or better than the province. The Liability Management and Treasury Services Division actively manages credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When a counterparty has a split rating, the province uses the most conservative among the ratings.

Structure of Sinking Funds and Public Debt Management Fund

Until March 31, 2002, the province provided sinking fund installments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund installments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund installments generally range from 1 to 3 per cent of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2005, the estimated book value of the sinking funds was $2,112.1 million, of which $1,069.6 million was held in covenanted sinking funds and $1,042.5 million in discretionary funds. The Public Debt Management Fund (PDMF) contained $466.2 million, and the Debt Retirement Fund held $6 million. The policy objectives of all discretionary funds (the Sinking Fund General, the PDMF, and the Debt Retirement Fund) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the Consolidated Fund.

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The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations or in short-dated corporate holdings with a minimum AA rating. The PDMF is typically invested in Government of Canada and provincial bonds. Cash and equivalents in the sinking fund and PDMF are 7.3 per cent of total assets.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements. There has never been a default by the NSMFC on any of its obligations.

In recent years the province has purchased most of these issues in their entirety and at March 31, 2005, held a portfolio of $554.8 million NSMFC debentures in the provincial Consolidated Fund. However, the Halifax Regional Municipality for the purposes of the Harbour Solutions Project has $107 million on deposit with the Department of Finance, and as such, the net amount of NSMFC borrowing is only $447.8 million. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund and Debt Retirement Fund, are netted against the gross financial market debt of the province to arrive at net debt.

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Debt-Servicing Costs

Gross debt-servicing costs comprise the following items: (1) interest on existing long-term debenture debt, and the estimated interest cost of incremental borrowing; (2) interest on other long-term debt that is primarily P3 capital leases; (3) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (4) the accrual of interest of the province's unfunded pension and retirement benefit obligations. As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is netted against gross debt-servicing costs to arrive at net debt-servicing costs.

Schedule 15: Projected Debt-Servicing Costs ($ millions)

	Estimate 2004–05	Forecast 2004–05	Estimate 2005–06	Estimate 2006–07	Estimate 2007–08	Estimate 2008–09
Gross Debt-Servicing Costs	1,007.1	1,043.5	1,017.1	1,061.8	1,098.9	1,104.9
Less: Sinking Fund Earnings	(135.3)	(143.4)	(119.6)	(102.5)	(93.1)	(93.6)
Net Debt-Servicing Costs	871.8	900.1	897.5	959.3	1,005.8	1,011.3

The interest and foreign exchange rate assumptions used to estimate net debt-servicing costs in the fiscal year are shown in Schedule 16.

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Debt Servicing Costs—Assumptions and Sensitivity Analysis

Actual debt-servicing costs will vary from estimated amounts due to the dependence of debt-servicing costs on certain financial market variables and changes in the amount borrowed. Assumed levels for financial market variables are listed in Schedule 16. All assumptions are shown as average levels for the relevant fiscal year.

Schedule 16: Interest and Foreign Exchange Rate Assumptions

	Estimate 2004-05	Average 2004-05	Actual 31 Mar 2005	Estimate 2005-06	Estimate 2006-07	Estimate 2007-08	Estimate 2008-09
United States Dollar							
CAD/USD	$1.3500	$1.2781	$1.2096	$1.2500	$1.3000	$1.3250	$1.3500
USD/CAD	$0.7407	$0.7824	$0.8267	$0.8000	$0.7692	$0.7547	$0.7407
10-Year Canada Rate	4.75%	4.57%	4.32%	5.23%	5.27%	5.83%	5.83%
3-month Canada T-bill	2.65%	2.28%	2.53%	3.01%	4.10%	4.72%	4.72%
3-month US T-bill	1.90%	1.74%	2.79%	3.15%	3.67%	4.22%	4.22%

The sensitivity of debt-servicing costs estimates for the key variables is noted in Schedule 17.

Schedule 17: Debt Servicing Costs—Sensitivity Analysis

Change in Financial Market Variables Costs (CAD $ millions)	Change in Debt Servicing
1% change in Canada 3-month Treasury Bill	$17.5
1% change in US 3-month Treasury Bill	$1.4
1 Canadian cent change per 1 US dollar	$1.1

Sensitivities show how much debt-servicing costs would change if a variable changed from an assumed level for a full year. For example, if the Canadian dollar were 1 cent stronger relative to the assumed level of $1.2500 for the entire period from April 1, 2005 to March 31, 2006, debt-servicing costs would decrease by $1.1 million, if all other factors held constant.

Risk Management

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance, carries out the governance/ oversight function for the d bt management of the Province of Nova Scotia. The Debt Management Committee ensures that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The Debt Management Committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.

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Schedule 18: Projected Borrowing Requirements ($ millions)

	Estimate 2004-05	Forecast 2004-05	Estimate 2005-06	Estimate 2006-07	Estimate 2007-08	Estimate 2008-09
Budgetary (surplus)/deficit	(2.1)	(87.5)	(63.3)	(93.0)	(189.0)	(207.0)
Net Capital Advances	69.1	52.8	64.7	65.0	65.0	65.0
NS MFC Repayments	(50.5)	(50.5)	(66.5)	(68.4)	(71.0)	(55.4)
NS MFC Advances for Harbour Solutions	–	3.0	40.2	47.9	18.9	–
Tangible Capital Assets: Net Cash	131.8	136.7	153.5	138.5	93.5	78.5
Teachers' Pension Plan	–	–	142.0	–	–	–
Offshore Offset Agreement	–	–	(830.0)	–	–	–
Other Non-Budgetary Transactions[1]	(88.2)	(302.4)	(23.0)	(95.2)	(59.8)	(42.5)
Cash Operating Requirements	**60.1**	**(247.9)**	**(582.5)**	**(5.1)**	**(142.4)**	**(161.4)**
Cash Debt Retirement	1,297.9	1,408.9	1,596.4	1,095.4	588.4	269.3
Mandatory SF Income	57.4	65.9	60.3	53.2	60.8	62.4
Mandatory SF Contributions	71.5	71.5	56.7	56.7	56.7	56.7
Mandatory SF Withdrawals	–	–	(205.4)	–	–	–
Net Mandatory SF Requirements	128.9	137.5	(88.5)	109.9	117.4	119.1
Discretionary Fund Income	77.8	77.5	58.7	49.5	32.3	31.3
Discretionary Fund Contributions	–	6.0	–	–	–	–
Discretionary Fund Withdrawals	(825.0)	(500.0)	(644.6)	(375.0)	–	–
Net Discretionary Fund Requirements	(747.2)	(416.5)	(585.9)	(325.5)	32.3	31.3
Total Requirements	739.7	882.0	339.5	874.6	595.8	258.2
Change in Short-term Borrowing	(400.0)	(346.2)	–	–	–	–
Total Borrowing Requirements	339.7	535.8	339.5	874.6	595.8	258.2

1. Non-budgetary Requirements consists of the following items: foreign currency amortization, amortization of debenture discounts, pension valuation adjustment, Sysco pension and environmental costs.

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Schedule 19: Projected Gross and Net Debt ($ millions)

	Actual 2003-04	Estimate 2004-05	Forecast 2004-05	Estimate 2005-06	Estimate 2006-07	Estimate 2007-08	Estimate 2008-09
Gross Debt							
Opening Balance	14,606.4	13,898.7	13,898.7	13,216.1	12,030.8	11,898.6	11,950.2
Borrowing Program	1,115.6	339.7	535.8	339.5	874.6	595.8	258.2
Debt Retirement	(1,277.4)	(1,297.9)	(1,408.9)	(1,596.4)	(1,095.4)	(588.4)	(269.3)
Foreign Exchange (Gain)/Loss	(295.5)	73.5	(178.7)	71.6	88.6	44.3	44.3
Change in Other Unfunded Debt[1]	(250.4)	400.0	369.3	–	–	–	–
Closing Balance	13,898.7	13,414.0	13,216.1	12,030.8	11,898.6	11,950.2	11,983.4
Mandatory Sinking Funds							
Opening Balance	916.1	979.9	979.9	1069.6	1,002.3	1,141.3	1,274.7
Installments	60.6	71.5	71.5	56.7	56.7	56.7	56.7
Earnings	68.4	57.4	65.9	60.3	53.2	60.8	62.1
Foreign Exchange (gain)/loss	(65.1)	18.7	(47.7)	21.2	29.1	16.0	17.5
Sinking Fund Withdrawals	–	–	–	(205.4)	–	–	–
Closing Balance	979.9	1,127.5	1,069.6	1,002.3	1,141.3	1,274.7	1,411.3
Discretionary Funds							
Opening Balance	2,457.4	1,931.3	1,931.3	1,514.7	928.9	603.4	635.6
Installments	–	–	6.0	–	–	–	
Earnings	115.3	77.8	77.5	58.7	49.5	32.3	31.3
Fund Withdrawals	(641.4)	(825.0)	(500.0)	(644.6)	(375.0)	–	–
Closing Balance	1,931.3	1,184.1	1,514.7	928.9	603.4	635.6	666.9
NSMFC Assets							
Opening Balance	407.8	437.6	437.6	447.8	421.5	401.0	349.0
Repayments	(43.3)	(50.5)	(50.5)	(66.5)	(68.4)	(71.0)	(55.4)
Advances	73.1	–	57.7	–	–	–	–
Net Advances to Harbour Solutions			3.0	40.2	47.9	18.9	–
Closing Balance	437.6	387.1	447.8	421.5	401.0	349.0	293.6
Net Debt	10,549.9	10,715.3	10,184.0	9,678.1	9,753.0	9,690.9	9,611.7

1. The Change in Other Unfunded Debt arises due to the province's use of accrual accounting for budgetary purposes, and net debt is a cash debt concept. As such, balance sheet items such as accounts payable and accounts receivable have an impact on the level of Consolidated Fund cash.

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Schedule 20: Projected Net Direct Debt ($ millions)

	Actual 2003-04	Forecast 2004-05	Estimate 2005-06	Estimate 2006-07	Estimate 2007-08	Estimate 2008-09
Opening Balance	12,226.0	12,332.0	12,381.2	12,471.4	12,516.9	12,421.4
Add (Deduct)						
Provincial (Surplus)/Deficit	(42.6)	(87.5)	(63.3)	(93.0)	(189.0)	(207.0)
Increase (Decrease) in the Net Book Value of Tangible Capital Assets	144.0	136.7	153.5	138.5	93.5	78.5
Increase (Decrease) in Inventories of Supplies	2.0					
Increase (Decrease) in pre-paid expenses	2.6					
Increase (Decrease) in Net Direct Debt	106.0	49.2	90.2	45.5	(95.5)	(128.5)
Closing Balance	12,332.0	12,381.2	12,471.4	12,516.9	12,421.4	12,292.9

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